

**ASIAN DEVELOPMENT BANK
Independent Evaluation Department**

SECTOR ASSISTANCE PROGRAM EVALUATION

FOR

VIET NAM

In this electronic file, the report is followed by Management's response, and the Board of Directors' Development Effectiveness Committee (DEC) Chair's summary of a discussion of the report by DEC.



Evaluation Study

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Asian Development Bank Support for the Transport Sector in Viet Nam

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
CAP	–	country assistance plan
CAPE	–	country assistance program evaluation
COSS	–	country operational strategy study
CSP	–	country strategy and program
DFID	–	UK Department for International Development
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
JBIC	–	Japan Bank for International Cooperation
JICA	–	Japan International Cooperation Agency
MOT	–	Ministry of Transport
NH	–	National Highway
OCR	–	ordinary capital resources
PCR	–	project completion report
PDOT	–	provincial department of transport
PPTA	–	project preparatory technical assistance
PMU	–	project management unit
RRP	–	report and recommendation of the President
SAPE	–	sector assistance program evaluation
SEDP	–	Socioeconomic Development Plan
SOE	–	state-owned enterprise
TA	–	technical assistance
VINALINES	–	Viet Nam National Shipping Lines
VINAMARINE	–	Viet Nam National Maritime Bureau
VRA	–	Viet Nam Roads Administration
VRC	–	Viet Nam Railways Corporation

NOTE

In this report, “\$” refers to US dollars.

Key Words

viet nam, transport, railways

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Attachment: Management Response
DEC Chair Summary

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. Robert Anderson, Van Quang Phung, and Elizabeth Lat were the consultants. To the knowledge of the management of IED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

EXECUTIVE SUMMARY

Viet Nam's transport sector has made a substantial contribution to the country's rapid economic growth over the past decade. It has helped reduce poverty directly by improving links to markets, education, and health facilities, and indirectly by contributing to economic growth. One of the consequences of this sustained and rapid growth has been an equally rapid increase in the use of motorized vehicles, leading to increased congestion on the highway network.

Since resuming operations in Viet Nam in 1993, Asian Development Bank (ADB) assistance to the transport sector in Viet Nam, including those made through Greater Mekong Subregion (GMS) program, have amounted to \$2.37 billion and technical assistance (TA) of \$22.51 million. During 1993–2008, the transport sector received the largest share (39%) of the total loan disbursements of \$5.9 billion and of this most was invested in roads, with ADB providing 13 loans amounting to \$2.26 billion and 18 TA projects worth \$17.34 million to the roads subsector. When GMS loans are excluded, transport is still the largest recipient, with some \$985 million.

The Government's investment in the road network appears to have focused on new construction, without full funding of subsequent maintenance requirements. Expenditure on the periodic and routine maintenance of national highways between 1998 and 2002 was less than half of the needs estimated by Viet Nam Road Administration (VRA) in its 10-Year Strategic Maintenance Plan. A key issue for the Government is the debt of the Ministry of Transport (MOT) arising from its state-owned enterprises (SOEs), which was recently estimated at D19.5 trillion (\$1.1 billion), or about 1.5% of the country's gross domestic product. Construction SOEs have huge debts and urgently need financing. This forces them to submit low "survival" bids to secure contracts, a practice that ultimately results in low-quality construction and delayed implementation.

Top-Down Rating

Strategic Positioning. ADB's strategic positioning is rated as "substantial" (on the high side). In general, there has been a close alignment of ADB's transport strategies and programs with the Government's major transport priorities. The rehabilitation and improvement of transport infrastructure was an important element of ADB's strategy to support the Government's immediate and fundamental infrastructure investment needs during the early years of engagement. The promotion of private sector involvement in construction and maintenance was included as part of ADB's strategy, taking into consideration the Government's resource constraints. However, this strategy was not well articulated; as a result, very little private sector investment in roads materialized. ADB's recent initiatives for private sector participation and institutional reforms, especially those relating to SOE reforms and governance, while appropriate, could be given greater impetus. In view of Viet Nam's huge overall transport sector investment requirements, it was appropriate for ADB to focus on the roads subsector, where it could bring to bear its substantial experience and expertise.

Given its considerable experience in the road subsector and the high demand for roads subsector investments in Viet Nam, ADB has had little involvement in the railways subsector until recently. ADB's most recent Viet Nam country partnership strategy lists railways as one of the main thrusts of ADB's investment program. This strategy meets the Government's need to upgrade existing railways and build new routes to connect major economic centers. ADB's only intervention in the ports subsector was a successful loan to improve cargo-handling operations and management information systems.

ADB's strategy in the roads and railways subsectors has been consistent with its actual lending and nonlending programs. In the roads subsector, ADB's program in the early period (1993–1995) emphasized rehabilitation and improvement. Priority was given to the rehabilitation of NH1 (National Highway 1), which is the most important continuous north–south link. There has been less consistency between the national and GMS programs. The GMS program has increasingly focused on the construction of expressways along regional economic corridors, while the national program has focused more on provincial roads. From the Government's perspective, GMS and national projects both fall primarily under the umbrella of "national infrastructure development;" regional benefits are regarded as secondary. GMS funds are preferred as they are "softened" with Asian Development Fund resources, whereas national projects receive only ordinary capital resources lending. This preference to use GMS projects to fund national transport infrastructure is reflected by the fact that ADB national project loans (some \$955 million) comprise only 40% of total ADB lending to Viet Nam's transport sector (\$2.35 billion).

ADB has made good progress in harmonizing its operations with other donors in the transport sector in Viet Nam. This harmonization was particularly well conceived and well executed with regard to the reconstruction of NH1.

Value Addition. Value addition is rated as "substantial." In the 1990s, a TA project on institutional strengthening of the MOT made a significant early contribution to policy reform by assisting the Government in drafting the Road Act. Although the Act has not yet been ratified, the TA project brought together Government officials and fostered an important debate on issues such as road maintenance and the development of a legal framework. Asset management systems introduced under Loans 1653 and 2195 were subsequently taken up by the World Bank and the Japan International Cooperation Agency (JICA). Improved procurement systems for MOT SOEs for both civil works and consultancy were introduced and implemented jointly with the World Bank.

ADB projects have also addressed road safety. Several road projects incorporated the installation of traffic signs and signals, street lights, road markings, center lines and barriers, and speed reduction strips on carriageways. These projects have improved road safety and contributed to a reduction in the incidence of accidents and injuries. However, more could have been done (for instance, in the areas of driver education, vehicle inspection, licensing, traffic regulation enforcement, and road shoulder widening).

ADB Performance. ADB performance is rated as "substantial" (on the low side). Overall, ADB was very responsive to Government needs and produced strategies that were closely aligned with those of the Government, thereby fostering good program ownership. ADB also developed strong partnerships with development partners. The Viet Nam Country Strategy and Program (2007–2010) noted that the preparation of loan and transport projects is sometimes delayed because of differences between funding agency and Government approval processes. Transport project performance, in terms of contract awards, has fallen short of annual projections in recent years. In 2005 only about 61% of year-end projections were attained; in 2006, the figure was about 24%. This trend was reversed in 2007, when the year-end target was exceeded. However, as of 30 June 2008, only about 32.4% of projected annual contract awards had been achieved.

A recurrent theme in all evaluated road projects were delays and problems related to implementation of ADB-required resettlement plans. Project management units (PMUs) repeatedly reported difficulties complying with ADB guidelines. The most difficult guideline to comply with was the requirement to pay replacement resettlement compensation rates to affected

peoples disturbed by ADB projects, while elsewhere centrally fixed (and significantly lower) rates were paid for Government projects, as required by Viet Nam law.

The Independent Evaluation Mission believes that ADB lacks sufficient operations staff to effectively manage ADB's rapidly growing transport portfolio in Viet Nam. ADB should ensure that it has sufficient human resources available to (i) internally manage the transport portfolio; and (ii) monitor the work of the executing agencies, consultants, and civil works contractors—including more frequent site visits. At the Viet Nam Resident Mission, a single professional staff member is expected to implement three ongoing delegated loans, but the position has been unfilled since the end of 2008.

Overall Top-Down Rating. Based on the assessments for "substantial" strategic positioning, value addition, and ADB performance, the overall top-down rating is "successful."

Bottom-Up Rating

Relevance. Projects have consistently been relevant to the needs and priorities of the Government, have been in line with ADB's comparative advantages, have been harmonized with support provided by other development partners, and have largely been appropriately designed to achieve intended outcomes. Lending operations have been well focused with regard to civil works requirements, but not so well focused on aiding the development of sustainable institutions in the transport sector, such as the VRA. Operations in the mid-1990s were initially driven by the need to respond to the considerable demand for investment in physical infrastructure following the Government's decision to seek such investment as part of *doi moi* (reform and renovation). This reflected the need for urgent remedial measures at the time. However, once this initial "emergency" phase was over, normal diagnostic analyses were used to prepare and carry out projects. ADB assistance is rated as "relevant."

Effectiveness. ADB operations were successful in contributing to outputs (for example, roads built) and outcomes (reduced travel times, for example) in support of Viet Nam's goals and objectives. Operation generally achieved results as defined by country operational strategies, country strategies and programs, and country partnership strategies. Outputs in terms of construction of physical infrastructure often exceeded targets, primarily because funds remained in loans due to low bids, and because the contingency component of loans was underutilized. Additional infrastructure construction was often added to loan scope. ADB assistance is rated as "effective."

Efficiency. In the broad socioeconomic context, ADB assistance was efficient, with reasonably high economic rates of return on investments on the four completed loans of 13%–35%, according to the project performance evaluation/project completion reports (compared with 18.1%–32.3% at appraisal). The assistance has been less efficient in targeting resources to institutional development. Overall, ADB assistance is rated "efficient."

Sustainability. To date, marginally sufficient maintenance funding has been made available for the three projects to improve NH1, but it is not a given that a similar level of funding will be provided for needed periodic maintenance overlays, or that sufficient funds will be passed down to provinces to finance maintenance of the scattered road sections being constructed under Loans 1888 and 2195. Assurances have been made by the Government that funding will be made available, but the scale of underfunding remains a problem, particularly for provincial roads. Another issue concerns institutional sustainability. The roles and responsibilities of MOT, the Ministry of Construction, VRA, the Viet Nam Expressway

Corporation, and the PMUs have yet to be clearly defined. In view of these uncertainties, ADB assistance is rated as "less likely sustainable."

Impact. ADB operations have had their most positive impact on economic development. As the full impacts of Loans 1888 and 2195 take hold over the next few years, the impact of ADB operations will begin to shift more toward poverty reduction, and will also begin to have a more positive impact on social concerns. Negative impacts that are unrelated to construction, such as air and noise pollution, carbon dioxide emissions, safety impacts, and other social issues including severance have been examined in this report. While some of these have been addressed or mitigated through the incorporation of measures in project designs, even more could be done to support Government in terms of reducing emissions, driver education, vehicle inspection, licensing and traffic regulation enforcement, and the widening of shoulders. Overall, ADB assistance is rated as having had a "likely substantial impact."

Overall Bottom-Up Rating. Based on the above, the overall bottom-up rating is "partly successful."

The overall assessment of ADB assistance to the transport sector is "successful."

Conclusion and Lessons Identified

ADB has had a successful program of investments in the roads subsector, both through national and GMS investments. The program of support to other transport subsectors has been limited, but successful. Currently, ADB has limited human resources in these subsectors. ADB's experience in and knowledge of the roads subsector played a role in the decision to focus on roads. With other development partners supporting other subsectors, the overall program of support to the Government for the transport sector is holistic and comprehensive. However, a major program change is in the cards, as proposed future investments target urban mass transit systems and railways in addition to expressways. Several lessons have been identified. These need to be taken into account if the broader future program is to succeed and if sustainability is to improve. These include:

- (i) design flexibility—standard designs may not always be appropriate for certain local conditions (for example, in mountainous areas);
- (ii) project preparation—length of time from identification to effectiveness needs to be shortened;
- (iii) underbidding—this problem has left some contractors with insufficient funds for successful implementation;
- (iv) safeguard harmonization—already agreed to in principle, but needs to be implemented;
- (v) institutional strengthening—needs more attention, particularly in light of potentially large increases in future investment flows and a recent incident involving an MOT PMU;
- (vi) transparency—the use of equitized SOEs to bid on ADB-funded projects when they may still be effectively under Government control may result in conflicts of interest and has also resulted in some reported cases of underbidding to secure contracts;
- (vii) capacity analysis—not enough has been done to identify capacity building needs, particularly at the provincial level; and
- (viii) TA ownership—TA could be more demand driven to improve ownership.

ADB has coordinated well with other development partners, and this cooperation needs to continue for the Government to maximize the benefits of assistance. The evaluation has also shown that a focused program of assistance (for example, on NH1) properly coordinated with other development partners results in success.

Viet Nam's future transport infrastructure requirements are huge. Various estimates have been made of future investment requirements in the transport sector through 2010 and 2020. Annual projections vary from a low of D24 trillion (\$1.4 billion) to a high of D99 trillion (\$5.7 billion) through 2010. The desired annual transport investment between 2002 and 2020 is D118 trillion (\$7.5 billion) per year, with almost 60% of that total in rail and urban transport. This is even higher than the 2002–2010 annual average. To place these figures in perspective, 2002 transport expenditures were D24 trillion (\$1.5 billion).

Overall, the current rapid expansion of funds for transport in Viet Nam needs to be viewed against the risks involved with those funds being channeled through relatively weak institutions to contractors still under the control of the state sector.

Recommendation	Responsibility	Timing
1. In light of expanding transport sector operations, develop a governance plan that will comprehensively address the institution building and organizational changes required to mitigate the risks of the current institutional arrangements (para. 117).	SERD	end-2010
2. Consider providing "real-time" advisory support to Government for new areas of intervention, such as private sector participation in investments (para. 118).	SERD	continuous
3. Through close cooperation with other development partners, improve the sustainability of projects by gaining Government commitment to maintenance funding (para. 119).	SERD/Other development partners	end-2010
4. Review bidding arrangements to ensure that underbidding does not adversely affect project performance and that transparency is maintained in contracts with the equitized SOE sector (para. 120).	SERD/Implementing unit/ Other development partners	end-2010
5. Reassess current staffing requirements at both ADB HQ and VRM to ensure that the expanding transport portfolio is appropriately resourced (para. 121).	SERD/ADB Management	end-2009

ADB = Asian Development Bank, BPHR = Human Resources Division, HQ = headquarters, SERD = Southeast Asia Department, SOE = state-owned enterprise, VRM = Viet Nam Resident Mission.

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I. INTRODUCTION AND BACKGROUND

1. This sector assistance program evaluation (SAPE) presents the findings of an independent assessment of Asian Development Bank (ADB) support for the transport sector in Viet Nam since 1993. This evaluation forms part of the Viet Nam country assistance program evaluation (CAPE) and will contribute to the subsequent preparation of a new country partnership strategy. The transport sector has been chosen for a SAPE as it is the sector receiving the most support from ADB, and also because it has been identified by the Government as a key sector for promoting national development. The transport sector comprises multimodal transport; ports, waterways, and shipping; railways; and roads and highways. However, this evaluation focuses on the roads subsector, with brief reference to railways and ports. It evaluates the performance of ADB assistance in the transport sector, identifies issues and lessons for improving current and future operations, and aims to help establish objectives in response to changing economic conditions and priorities. The evaluation is limited to national projects. Projects considered part of the Greater Mekong Subregion (GMS) program are described and evaluated in the regional SAPE on transport.¹

2. **Scope and Objectives.** This SAPE assesses the relevance, efficiency, effectiveness, sustainability, and impact of ADB's completed and continuing transport sector program in Viet Nam from 1993 to 2008. It also aims to derive lessons and good practices to guide future ADB support in this country. The SAPE evaluates ADB's strategic direction, the alignment of ADB's program with broader ADB and Government strategies, the performance of the assistance program, the value addition of ADB support, the overall performance of ADB, and lessons identified. Details of scope objectives, approach, and methodology are in Appendix 1.

3. **Approach and Methodology.** The SAPE was carried out through a combination of studies, interviews, and document reviews conducted in Viet Nam and at ADB headquarters. Individual components were (i) background analysis of the transport sector, (ii) comparator assessment, (iii) analysis of strategic fit, (iv) evaluation of completed ADB projects, (v) assessment of the impact of policy-oriented advisory technical assistance (ADTA), and (vi) survey of key informants.

4. **Limitations.** The SAPE has the following limitations:

- (i) It excludes the telecommunications subsector since ADB has long exited from this sector.
- (ii) The assessment of individual project outcomes is limited to projects that have been completed and for which project performance evaluation reports or project completion reports (PCRs) are available.
- (iii) It does not separately evaluate regional and subregional projects since these have been covered by evaluation studies as part of the GMS regional assistance program evaluation.

5. **Organization of the Report.** Chapter II presents the development context and Government priorities over the study period, while chapter III examines ADB sector strategies. Chapter IV provides a top-down assessment of strategic coherence, value addition, and the role of ADB performance. Chapter V sets out the evaluation of loan and technical assistance (TA) projects. Chapter VI summarizes the major findings, including the overall assessment of the performance of ADB support.

¹ ADB. 2008. *Sector Assistance Program Evaluation for Transport and Trade Facilitation in the Greater Mekong Subregion—Time to Shift Gears*. Manila.

II. DEVELOPMENT CONTEXT AND GOVERNMENT PRIORITIES

A. Background

6. The transport sector has contributed to the economic growth of Viet Nam over the past decade. It has helped reduce poverty through improved links to markets, education, and health facilities, and indirectly through its contribution to growth. For example, surveys indicate that businesses that chose to invest in northern Viet Nam regarded transport improvements as a key factor in their decision.² These surveys also reflect the impact of improved infrastructure on poverty reduction; showing that investing 1% of provincial gross domestic product (GDP) in transport infrastructure could reduce poverty by 0.5–1.0% and that an investment of \$50 million in transport in the 15 poorest provinces could reduce poverty by 6–7%. By 2004, roads carried 1.0 billion passengers covering 31.7 billion passenger kilometers (km), accounting for more than 80% of total passenger traffic movements. Roads are also the major conduit for goods movement, especially over short distances.³ The total length of the Viet Nam road system is about 251,786 km, of which only 32% is sealed pavement.

7. The Viet Nam economy has been growing rapidly. One of the consequences of this sustained, rapid growth has been an equally rapid increase in the use of motorized vehicles, leading to increased congestion on the highway network. Even though vehicle ownership is rising quickly, car ownership is still low and road traffic is dominated by motorcycles. Motorcycle ownership grew at more than 20% per year from 1997, and totaled more than 11 million in 2003, or about 140 per 1,000 people. The number of four-wheeled vehicles and multi-axle trucks grew from 400,000 in 1997 to 600,000 in 2002 (7.5 vehicles per 1,000 people).⁴ Trucks comprise 30% of the fleet, but 80% of them are small to medium-sized and only 10% are modern articulated trucks (footnote 4). There is a continuing shift from motorcycles to passenger cars, and this is expected to continue in the future. This will place further demands on the national highway system, reinforcing the need for highway network construction throughout the country (Loan 2195 Central Region Transport Networks Improvement Sector Project).⁵

8. Investment in the road network appears to be largely driven by new construction rather than by the maintenance of the existing roads. Expenditures on the periodic and routine maintenance of national highways between 1998 and 2002 was less than half of the needs estimated by Viet Nam Road Administration (VRA) in its 10-Year Strategic Maintenance Plan. It is difficult to obtain accurate information about the condition of provincial, district, and commune roads. While large interprovincial variations in local-road conditions likely exist, provincial fieldwork and evidence from continuing World Bank projects indicate that provincial roads, in general, are in poor condition (footnote 2).

² World Bank. 2006. *Transport Strategy: Transition, Reform, and Sustainable Management*. Washington, DC. Available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/06/000160016_20060906122909/Rendered/PDF/371870VN0Transport01PUBLIC1.pdf?bcsi_scan_D4A612CF62FE9576=MOqhS7q3RfJaE0Sily+xCAYAAADwuBIH&bcsi_scan_filename=371870VN0Transport01PUBLIC1.pdf

³ ADB. 2006. *Country Strategy and Program for Viet Nam 2007–2010*. Manila.

⁴ ADB. 2007. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Socialist Republic of Viet Nam for the Greater Mekong Subregion: Kunming–Hai Phong Transport Corridor–Noi Bai–Lao Cai Highway Project*. Manila (Loans 2391/2392[SF]-VIE, for \$1,096 million, approved on 14 December).

⁵ Details of loans and technical assistance projects can be found in Appendix 2. They are not footnoted to in the text.

9. The average speed of vehicles is 50 km per hour (km/h) for trucks and 60 km/h for buses and cars. The complex traffic conditions cause many problems, such as poor safety, limited vehicle speeds, and low capacity. Poor road safety is a serious and growing problem throughout Viet Nam: 14,161 road deaths were reported in 2006, which is equivalent to a rate of about 7 deaths per annum per 10,000 vehicles. The number of reported deaths increased marginally from 2005. Fatality rates for Viet Nam are very high, even compared with many neighboring countries in Southeast Asia, and new initiatives in road policy and management are urgently required. The major causes of traffic accidents are speeding, misuse of drugs, and breach of traffic regulations. Additional factors are poor road traffic management and the mix of high- and low-speed vehicles sharing the same road (Loan 2451 Ho Chi Minh City–Long Thang–Dau Giay Expressway Construction Project).

10. For railways, communication equipment is outdated and only 40% of railway stations are supplied with semiautomatic signals. The quality of both rails and bridges is poor, and many lines do not meet modern technical standards. There has been little investment in upgrading railways. What work has been done has mainly focused on strengthening bridges and preventing the network from deteriorating further. As a result, average train operating speeds are low at 40 km/h for passengers trains and 22 km/h for freight trains. Speeds are also constrained by single track working, with trains having to stop regularly to allow other trains to pass.

11. In the ports subsector, projects face the common problem of local authorities competing for Government funds and attention. The limited availability of funds has resulted in scattered and undersized ports in several provinces. Viet Nam still lacks an international standard large capacity port that could facilitate the country's rising exports and economy. While productivity is hampered by port conditions, progress is being made. Port fees have been reduced and are now competitive with those of neighboring countries. Customs services have improved, paperwork has been reduced, and information technology systems are being introduced.

12. Retrospective sector analyses for the roads, rail, and ports subsectors are attached in Appendix 3.

B. Government Strategy

13. Several Government strategic documents underscore the importance of transport sector development. The Socioeconomic Development Plan (SEDP) for 2006–2010 identifies the importance of the transport sector in promoting economic growth, poverty reduction, safety enhancement, environmental protection, and human resource development.⁶ The Central Committee of the Communist Party of Viet Nam stated the following priorities to the Ninth Congress in April 2001:

- (i) complete the upgrading of National Highway 1 (NH1) and building of the Ho Chi Minh City Highway;
- (ii) upgrade and build other national highways, with attention given to border roads, beltways and roads connecting various regions with major development centers, major river bridges, and roads connecting with countries of the GMS;
- (iii) develop and upgrade the transport system in individual regions, including rural transport, with smooth traffic ensured year-round;
- (iv) upgrade the existing railway network and open new railway links to economic centers;

⁶ Ministry of Planning and Investment. 2006. *The Five-Year Socioeconomic Development Plan (2006–2010)*. Ha Noi.

- (v) complete the national seaport system and the local port network, as planned;
- (vi) develop river transport and increase the maritime transportation capacities linked with the shipbuilding and ship repair industries; and
- (vii) modernize international airports and upgrade domestic airports.⁷

14. The strategy for the development of the communications and transport sector until 2020 was summarized in a Decision by the Prime Minister in 2004.⁸ This referred to the need to minimize transport costs; pursue a synchronous, rational, and gradual modernization program; and maintain the existing transport infrastructure. It also identified a need for international and regional integration, and a need to develop urban mass transit systems. The Government has also noted the need for a network of high-capacity, high-speed expressways to complement the network of national, provincial, and city roads. It also wishes to share development more equitably with parts of the country that are remote from major urban centers such as Ha Noi, Ho Chi Minh City, and Da Nang.

15. **Ministry of Transport's Debt Overhang and High Indebtedness of State-Owned Enterprises.** The debt of the Ministry of Transport (MOT) has recently been estimated at D19.5 trillion (\$1.5 billion), or about 1.5% of the country's GDP. This figure excludes the debt that has been accumulated at the provincial level, which is believed to be substantial as well. MOT has more than 200 state-owned enterprises (SOEs), most of which are grouped in 12 corporations. More than 100 of MOT's 226 SOEs are involved in construction activities. While in principle SOEs are independent business entities, in practice they may still be strongly influenced by MOT. State banks have provided loan rollovers, as in many cases interest payments due are in excess of the borrowing enterprise's capitalization (footnote 2).

16. The high indebtedness of construction SOEs and their urgent and serious need for financing forces them to submit low "survival" bids to secure contracts, a practice which ultimately results in low quality works and delayed implementation. This practice may relieve insolvency for short periods but is unlikely to prevent bankruptcy. Moreover, these practices, coupled with a lack of performance incentives, do not foster a competitive, transparent, or efficient operating environment. ADB's country strategy and program (CSP) for 2007–2010⁹ highlighted the fact that reform of state-owned transport enterprises is needed to promote competition, reduce costs, improve quality, and increase reinvestment of capital resources. Nevertheless, it is highly unlikely that recent expenditure levels can be sustained in the long run, not only because of SOEs' unsustainable debt levels, but also because 35% of central transport expenditures are being financed by concessional official development assistance that may no longer be available at the end of the decade.

III. ADB STRATEGIES FOR THE TRANSPORT SECTOR

17. Overall strategic direction for interventions in the transport sector is given by ADB's long-term strategic framework 2008–2020 (Strategy 2020),¹⁰ which focuses on five specializations: (i) infrastructure, (ii) environment, (iii) regional cooperation and integration, (iv) financial sector

⁷ The Seventh Party Congress had endorsed the 1991–2000 Strategy for Socioeconomic Stabilization and Development. The Ninth Congress is to evaluate the implementation of that strategy and decide upon the Strategy for Socioeconomic Development during the first decade of the 21st century, as part of the Strategy for Accelerated Industrialization and Modernization along the Socialist Line, laying the foundations for Viet Nam to become an industrialized country by 2020.

⁸ Government of Viet Nam. 2004. *Decision No. 206/2004/QĐ-TTĐ of December 10, 2004 approving the Strategy on Development of Viet Nam's Communication and Transport till 2020*. Ha Noi.

⁹ ADB. 2006. *Country Strategy and Program for Viet Nam 2007–2010*. Manila.

¹⁰ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

development, and (v) education. For infrastructure, Strategy 2020 defines a core area of operations to improve transport and communication connectivity within and between developing member countries. Strategy 2020 further states that ADB's operations will not be limited to physical infrastructure but will also improve the delivery of infrastructure services to help create an enabling environment for the private sector.

18. ADB's strategy for Viet Nam was set out in the 1993–1995 Interim Operational Strategy (IOS), the 1995 Country Operational Strategy Study (COSS), and the 2001 CSP 2002–2004.¹¹ These were followed by a country strategy interim program for 2006–2010 and the CSP for 2007–2010.¹² A summary of ADB's strategies for transport is in Appendix 4.

19. **1993 Interim Operational Strategy.** Upon the resumption of ADB assistance in 1993, ADB assessed the strategic importance of helping the Government rehabilitate the damaged, dilapidated, and inadequate transport infrastructure brought about by war and years of neglect and underinvestment. The IOS for 1993–1995 supported four main activities, including the rehabilitation and development of physical infrastructure in transport (roads and ports).

20. **1995 Country Operational Strategy Study.** A full COSS was produced in 1995, which broadened overall ADB assistance. The COSS reflected increasing concerns with crosscutting issues such as macroeconomic stability, regional balance, and poverty reduction. Although relevant, the broadened development strategies of ADB resulted in a loss of focus in its operations. Indeed, any and all possible interventions could be justified by the comprehensive list of concerns.¹³

21. In the transport sector, investment in rehabilitation and upgrading was still considered a major priority. However, the strategic focus shifted. While the roads subsector remained the principal focus of transport investment, ADB also envisaged concentrating project interventions on transport corridors to facilitate trade and other economic links between designated growth zones and their surrounding hinterlands.¹⁴ Improvements in rural transport were also envisioned. These represented a departure from ADB's initial strategy on placing priority on rehabilitating the national highway network. The rationale for this change was not clearly articulated in the COSS.

22. **Country Assistance Plans.** Subsequent country assistance plans (CAPs), which were built on the 1995 COSS, highlighted the ever-increasing complexity of the transport sector. The 1996 CAP (1997–1999) included assessments of 13 subsectors, including ports, railways, and roads. Given that initial rehabilitation efforts were largely completed, ADB was faced with several options for its future strategic direction and investment priorities. Ports and railways were subsequently dropped in the succeeding 1997 CAP (1998–2000). As in the 1995 COSS, emphasis was given to crosscutting issues in the 1998 CAP (1999–2001), and the presentation

¹¹ ADB. 1993. *1993–1995 Interim Operational Strategy*. Manila; ADB. 1995. *Country Operational Strategy Study for Viet Nam*. Manila; and ADB. 2001. *Country Strategy and Program (2002–2004) for the Socialist Republic of Viet Nam*. Manila.

¹² ADB. *Country Strategy Interim Program for 2006–2010*. Manila; and ADB. 2006. *Country Strategy and Program 2007–2010*. Manila. Other strategic documents included country assistance plans (CAPs) in 1996 (1997–1999), 1997 (1998–2000), 1998 (1999–2001), 1999 (2000–2002), and 2000 (2001–2003); and CSP updates in 2001 (2002–2004), 2002 (2003–2005), 2003 (2004–2006), 2004 (2005–2006), and 2005 (2006–2008).

¹³ ADB. 1999. *Country Assistance Program Evaluation for the Socialist Republic of Viet Nam*. Manila.

¹⁴ The 1999 CAPE for Viet Nam makes the point that the 1995 COSS made an effort to introduce a tighter focus by using the concept of links to integrate strategic objectives and facilitate a more coordinated set of programs and projects. To apply this concept, ADB would have to concentrate its project interventions on transport corridors and related development zones. However, this proved to be difficult to translate into operational terms, although the project investments under the GMS initiative represent an application of the concept.

of sector strategies was now much reduced.¹⁵ However, ADB increasingly wished to engage the Government in support for policy and institutional reform measures, and the major focus of ADB operations in the 1998 CAP was on providing substantial policy-related and capacity building support, especially to the roads subsector. This support was directed at the MOT and, in particular, at the newly formed VRA, and for the development of institutions and policies required to manage and maintain the road network system. In the short run, assistance was to be extended through project loans to state technical bureaus and construction companies for construction supervision and management. However, over the medium term, ADB planned to engage the Government in policy discussions on the need to corporatize these companies. The succeeding 1999 CAP (2000–2002) generally followed the thrusts of the previous CAP.

23. **2001 Country Strategy and Program Update.** The 2001 CSP Update (2002–2004) represented a transition from the previous COSS. The focus on growth with equity was retained, but emphasis was given to supporting rural–urban transition, a narrowed sector focus and targeting the poor in the Central Region. The proposed geographic focus on the Central Region was to be carried out at two levels: (i) community-based livelihood projects focusing on a small number of provinces; and (ii) sector projects designed with a regional perspective (in road transport, water resource management, infrastructure, power transmission and distribution, and urban development).

24. Discussions on the transport sector were subsumed under private sector development (i.e., catalyzing private participation in infrastructure), which was a component of sustainable growth; “higher level” infrastructure development for the Central Region; and regional cooperation under crosscutting themes. In the Central Region, ADB aimed to support infrastructure expansion, in particular roads and water resources, to complement the community-based approaches.

25. In the roads subsector, three types of investment were to be considered. The first type would target provincial roads, linking district towns with their productive hinterlands, with each other, and with larger provincial towns, thus enhancing the role of district towns as catalysts of rural industrialization and generators of local off-farm employment. The second type of investment (especially beneficial to the Central Highlands) would aim to improve access to coastal markets and ports, subject to analysis of the impact on migration patterns and natural resources. The third would target construction of bypass roads around provincial and district towns on NH1, thus reducing the safety and environmental hazards associated with rising traffic volume. The CSP updates that followed continued to emphasize investment projects that could improve national and subregional connectivity.

26. **Country Strategy and Program (2007–2010).** ADB’s most recent CSP for Viet Nam (2007–2010) focuses on assisting the Government in removing transport and urban infrastructure bottlenecks through public sector, private sector, and regional cooperation operations. ADB aims to help the Government improve its transport investment program and reduce transport costs. The CSP stated that infrastructure must be brought up to modern standards, traffic laws must be enforced, and policies that conform to international practices must be enacted. This will require modernized institutions and improved human resource capacity. Such modernization and efficiency improvements will entail the decentralization of functions within the state and an appropriate allocation of responsibilities and risks between the

¹⁵ “Sectors” were defined in terms of three main economic groupings, with transport and energy being combined under physical infrastructure.

state and the private sector. The reform of transport SOEs is needed in order to promote competition, reduce costs, improve quality, and increase the reinvestment of capital resources.

27. In line with the SEDP, the CSP requires ADB to pursue a three-pronged investment program in the sector (including institutional capacity-building elements where necessary). The first prong supports investment projects to reduce critical transport bottlenecks currently hampering economic growth in the main development centers. Projects under this component will include investments in urban transport, priority expressways, and priority railways, with the goal of facilitating the safe and efficient movement of goods and people among major centers of economic activity. These revenue-generating projects will be funded through a blend of Asian Development Fund (ADF) and ordinary capital resources (OCR), or straight OCR loans. Private sector participation will also be encouraged as an option to help overcome resource constraints.

28. The second component of ADB's three-pronged investment program addresses social equity, using ADF funds to contribute to the development of provincial and district roads. This supports the SEDP objective of developing a regionally integrated infrastructure system. The third component complements the first two by supporting regional transport links such as the Kunming–Hai Phong Transport Corridor (footnote 4).

IV. TOP-DOWN ASSESSMENT

A. Strategic Positioning

29. ADB's strategic positioning is rated as "high." In general, there has been a close alignment of ADB's transport strategies and programs with the Government's major priorities in the sector. The rehabilitation and improvement of transport infrastructure was a priority ADB strategy to support the immediate and fundamental infrastructure investment needs of the Government during the early years of engagement. ADB's overall focus on roads was consistent with the high priority accorded by the Government to the rehabilitation of the national highway network and other components of the road network. In view of the huge overall transport sector investment requirements, it was sensible for ADB to bring to bear its substantial experience in the roads subsector.

30. From 2000 onward, ADB transport strategies tried to be more responsive to the goals of the Government by shifting focus toward poverty reduction and sustainable economic growth. These strategies also fitted well with the Government's SEDPs and the Poverty Reduction Partnership Agreement between ADB and Viet Nam. It was also in line with the increased emphasis by the Government on improving the provincial and/or rural road network in stages to complement these national highway improvements. ADB likewise broadened its strategies to include transport corridor development as well as policy and capacity building reforms. These additional strategies, although relevant and in support of the Government's needs, represented a departure from the previously clearer focus and potentially diluted ADB's comparative advantages.

31. Acknowledging the Government's resource constraints, ADB's sector strategies promoted private sector involvement in construction and maintenance. However, this strategy was not well articulated. ADB's recent initiatives for private sector participation and institutional reforms, especially those relating to SOE reforms and governance should be given greater impetus and should focus more on institutional strengthening, rather than on just training. Remaining regulatory constraints also need to be addressed, particularly those that hamper investments by domestic and foreign investors. The Government has recently taken important steps in this direction through the enactment of the Unified Enterprise Law, the Common

Investment Law, and Decree 78/2007/ND-CP dated 11 May 2007 on investments under the build-operate-transfer, build-transfer-operate, and build-transfer models.¹⁶ To improve selection of projects for these modes of financing and create an environment for sustained growth of the private infrastructure sector, ADB could address the Government's need for capacity building. Senior Government officials informed the Independent Evaluation Mission (IEM) that they clearly understood the principles of public-private partnerships, but now needed ADB to provide "real-time" advice on managing an actual public-private partnership deal. The Government could then replicate this model in other deals.

32. ADB strategic documents revealed a growing realization within ADB that policy reforms should support project investments if outcomes are to be fully achieved. In the 2000 CAP (2001–2003), relevant issues for the transport sector included the adequacy of the operations and maintenance budget, the promotion of private sector involvement in construction and maintenance, and the prioritization and economic justification of planned network expansions. These issues continue to be relevant. The 2000 CAP also reflected ADB's continued focus on poverty reduction. The pace of private sector participation in infrastructure development is slow. ADB should consider assisting the Government, if it so wishes, in developing policy reforms that promote increased private sector involvement in, for instance, the construction sector.

33. ADB has had little involvement in the railways subsector, although its most recent country partnership strategy lists railway facilities as one of the main thrusts of ADB's investment program. In this regard, ADB's strategy matches the Government's need to upgrade existing railways and build new railways to connect major economic centers. Also, ADB's overall focus on enhancing the commercial viability of railways through greater private sector participation, improving efficiency, and promoting policy reform matches well with Government's sector-based institutional reforms in the railways subsector.

34. **Consistency between the ADB Strategy and the ADB National Program.** There has been a high level of consistency between ADB's strategy in the roads and railways subsectors and the actual lending and nonlending programs it has provided. In the roads subsector, ADB's program of the earlier period (i.e., 1993–1995) emphasized rehabilitation and improvement. Priority was given to the rehabilitation of NH1, which is the most important continuous north-south link.

35. The broadening of ADB's 1996–1998 transport program not only resulted in a loss of focus compared with the 1993–1995 program, but also represented a shift in the underlying rationale for project interventions, the implications of which were not fully spelled out. In the earlier period, ADB was responding to the obvious pressure of demand on existing capacity. This remained the case for much infrastructural investment after 1995. The new initiatives in rural and human resource development were less obviously demand-led. In effect, ADB was moving into areas where it would stimulate development, rather than just responding to and accommodating growth.

36. The fact that Government plans were framed in such broad terms to accommodate assistance provided by any funding agency made it inevitable that ADB's strategy would conform with the Government's developmental objectives and strategies. By broadening its program, ADB was increasingly attempting to stimulate development in lagging segments of the economy. This meant that it was moving into inherently more complex and risky activities, and also represented a discernible movement from large, national infrastructure projects to activities intended to have a decentralized impact at the provincial and local levels. Although the major part of the program was still in large-scale infrastructure, this change in emphasis reflected a

¹⁶ International Monetary Fund. 2007. *Viet Nam: Selected Issues*. Washington, DC.

deliberate effort to adjust to changes in ADB's own priorities as well as the evolving situation in Viet Nam (footnote 13).

37. As work on improving national highways has progressed, projects have increasingly focused on other parts of the road network, including improvements to the provincial and rural road networks, to complement national highway improvements. However, a concomitant need has arisen to address capacity constraints and institutional weaknesses (in road maintenance, for instance) at the provincial level. This need has not been fully met by either ADB, other donors, or the Government.

38. **Consistency between the National and Greater Mekong Subregion Programs.** There has been less synergy between the national and GMS programs. The GMS program has been focusing increasingly on constructing expressways along economic corridors, while the national program has been focusing more on provincial roads. In-depth discussions with senior Government officials revealed that, from the Government's perspective, GMS and national projects were primarily regarded as developing national infrastructure development, with regional benefits regarded as secondary. As Viet Nam approaches the status of a middle-income country, access to the ADF for ADB's financing of national transport projects is now limited. GMS funds are preferred as they are "softened" with ADF resources when compared to the OCR lending available for national projects. For example, GMS Loan 2391 (footnote 4) is funded through \$896 million of OCR funds and \$200 million of ADF funds, while the new national Loan 2451 is funded through \$410.2 million of OCR funds exclusively. Details are provided in Appendix 5. This preference to use GMS projects to fund national transport infrastructure is reflected in the total of ADB national project loans (some \$985 million), which amounts to only 42% of total lending for transport development in Viet Nam (\$2.37 billion).

39. **Relationship with Other Development Partner Support.** The largest development partners in the transport sector are the Government, ADB, the World Bank, Japan Bank for International Cooperation (JBIC), and the United Kingdom's Department for International Development (DFID). ADB has achieved much in harmonizing its operations with other donors in the transport sector in Viet Nam. This harmonization was particularly well conceived and well executed with regard to the reconstruction of NH1. In the early 1990s, after three decades of war, the deterioration of the country's infrastructure had become a serious hindrance to economic development. Nowhere was this deterioration more critical than in the transport sector, and within the sector, the 2,200 km NH1 (stretching from the border with the People's Republic of China in the north to the southernmost tip of Viet Nam, and considered the transport backbone of the nation) was identified as the transport link most in need of rehabilitation. NH1 was divided into six sections, with ADB financing the rehabilitation of three sections and the World Bank financing the other three sections. Projects included building highway bridges up to 20 m in length. The Government of Japan, through the Overseas Economic Cooperation Fund, provided assistance to rehabilitate existing bridges and construct new bridges of more than 20 m in length.

40. In recent years, ADB has continued to harmonize effectively with other development partners, the best example being the Ho Chi Minh City–Long Thanh–Dau Giay Expressway. This Project is being cofinanced by ADB and JBIC, with individual civil works and consulting services contracts being funded by either ADB or JBIC. However, ADB funding will be applied to all land acquisition and resettlement activities for the Project. JBIC will fund an electronic toll collection and traffic information and monitoring system. TA and small projects involving the transport sector have generally been provided by bilateral sources.

B. Value Addition

41. Value addition (or contribution to development results) is rated as "substantial." In addition to direct project benefits, ADB assistance has added value to the sector in several areas. In the 1990s, TA 1996 (Institutional Strengthening of the Ministry of Transport) made a significant early contribution to policy reform through assisting the Government with the drafting of the Road Act. Although the Act has not yet been ratified after more than 10 years, the TA project brought together Government officials and fostered an important debate on issues including road maintenance and the development of a legal framework. The development of a computerized management information system at Saigon Port (TA 2305 Computerized Management Information System for Saigon Port), which also occurred during the early stages of ADB's engagement in Viet Nam, was the first such system to be introduced in Viet Nam. It was subsequently modified to reflect the evolving needs of the port.

42. Poor transport asset management systems have impacted the Government's capacity to improve the transport sector. Asset management systems introduced under Loans 1653 and 2195 (Appendix 2) were subsequently taken up by the World Bank and JICA. Improved procurement systems for MOT SOEs for both civil works and consultancy were introduced and implemented jointly with the World Bank. This included the introduction of international standards such as international competitive bidding procedures for civil works, and quality and cost-based selection for consultancy. This has led to improved procurement standards at SOEs, an essential prerequisite for increasing private sector participation in their operation.

43. Although it is difficult to quantify the value addition of ADB's assistance to Viet Nam's transport sector, this assistance has undoubtedly led to considerable benefits. The rehabilitation and further development of the roads subsector has facilitated the movement of goods throughout the country, generating concomitant benefits in terms of economic development and poverty reduction. Interviews with residents conducted by the IEM along project roads consistently returned positive comments about the benefits of the roads.

44. In addition to civil works, ADTA was incorporated into several projects to improve subsector policies and improve management efficiency. Specifically, ADTA projects focused on reorganizing MOT, institutional strengthening of the VRA, and building the capacity of the project management units (PMUs) to implement and operate projects.

45. In line with ADB's strategy to support Government efforts to reduce poverty, provincial and rural roads were added as a component of national highway road projects. The intention was to improve the rural population's access to the economic mainstream. Reliable rural roads increase opportunities for off-farm employment and are believed to have positive impacts on agricultural productivity and labor mobility. Both the Government of Viet Nam and ADB recognize that improved rural infrastructure, specifically rural roads, contribute to poverty reduction.

46. ADB projects have also addressed road safety. Improved road conditions can lead to increased incidence of accidents as traffic speeds increase. Several road projects incorporated the installation of traffic signs and signals, street lights, road markings, center lines and barriers, and speed reduction strips on carriageways. These contributed to a reduction in the incidence of accidents and injuries. However, more could have been done in areas such as driver education, vehicle inspection, licensing and traffic regulation enforcement, and widening of shoulders. Consequently, road safety remains a problem and safety measures in road projects should be imperative.

47. The installation of axle load control stations is another special feature of ADB-funded road projects. The enforcement of axle load regulations through the installation of weighbridge stations prevents truck overloading—a problem that adversely affects the road surface and leads to higher maintenance requirements.

48. A crucial feature of the project designs of ADB-funded road projects in Viet Nam concerns the provision of safeguards that are in accordance with ADB's safeguard policies. Such safeguards mitigate adverse environmental impacts, reduce impacts on indigenous peoples, and address the issue of involuntary resettlement. Overall, these safeguards have been implemented well, although in the case of resettlement differing ADB and Government compensation rates remain an issue.

49. In general, many of the road projects have had no adverse impact on the environment. Projects were usually required to conduct an environmental impact assessment to examine their environmental and social impact. In most cases, environmental mitigation measures were incorporated in the project design. However, a prevalent problem relates to the poor compliance of some contractors with their obligations to implement environmental safeguard measures. Upon completing civil works, some contractors failed to properly dispose of debris, waste construction materials, and the remnants of demolished structures, among others things. After repeated warnings, contractors' compliance with environmental mitigation measures eventually improved. It is important that active monitoring of contractors' compliance with mitigation measures be given continued emphasis in project implementation. MOT has an environment action plan that has been in operation since 2005. This has resulted in various ministerial instructions and Prime Minister decisions, including a road map for the application of transport emission standards and a study on pollution mitigation caused by transport activities. Details are contained in the ADB country environment analysis.¹⁷ This report also examines environmental impacts that are unrelated to road construction, such as air and noise pollution, carbon dioxide emissions, safety impacts, and other social issues including severance.

50. While certain issues arose in the implementation of resettlement plans, measures were undertaken to ensure that project-affected persons were properly resettled and received sufficient compensation for affected properties. Another safeguard provision in ADB road projects relates to the concerns of indigenous peoples or ethnic minority groups. Proper regard is accorded to the welfare of indigenous peoples through the formulation of action plans. Social concerns were also incorporated in the design of road projects through the inclusion of mitigation measures.

C. ADB Performance

51. ADB's performance is rated as "substantial" (on the low side). Overall, ADB was very responsive to Government needs (as set out in para. 29 above) and produced strategies that were closely aligned with those of Government, thereby fostering good program ownership. ADB also developed strong partnerships with development partners and is an active participant in the "six banks initiative," in the transport partnership group, and in the transport forum consisting of partners active in transport development. However, this strong performance has been somewhat mitigated by the issues set out below.

52. **ADB/Government Loan Process Alignment.** The Viet Nam CSP (2007–2010) noted that the preparation of loan and TA transport projects is sometimes delayed because of

¹⁷ ADB. 2006. *Socialist Republic of Viet Nam: Country Environment Analysis*. Manila (final draft).

differences between funding agency and Government approval processes. This consequently delays implementation and the realization of project benefits. The performance of ADB's transport projects in Viet Nam (as of 30 June 2008), measured in terms of the interval between loan signing and loan effectiveness, was worse than ADB-wide performance for 2007. It took an average of 5.9 months from loan signing to loan effectiveness, compared with the ADB-wide figure of 4.3 months. However, transport projects averaged only 1.4 months from approval to loan signing. Elapsed time from approval to loan effectiveness for transport projects averaged about 7.4 months. Although the Government has recently taken steps to ensure that official development assistance feasibility studies (such as project preparatory technical assistance [PPTA]) provide the Government with information to complete a feasibility study according to Government practice, the approval processes of both funding agencies and the Government need to be further streamlined, and procurement and implementation procedures harmonized, to reduce delays. There has been some confusion about implementation arrangements, the responsibilities and duties of the borrower and its PMUs, and the supervision consultant, with the PMU assuming the functions of all parties. This confusion has sometimes undermined the checks and balances needed to ensure proper administration and project implementation.

53. Recent country portfolio review missions (CPRMs) have generally confirmed these issues. Implementation delays have been noted in previous road projects, in particular during project start-up. Past project designs have required that project supervision consultants prepare detailed designs and bidding documents for civil works, meaning that the early years of loan projects have been devoted to these essential but low-disbursement activities. Further delays in awarding civil works contracts have been caused by delays in recruiting consultants and preparing detailed design. The 2008 CPRM found that, as of the end of July 2008, 17.8% of loans were at risk. Of these seven loans, three were in the transport sector. Those three loans experienced considerable gaps between the loan-signing date and loan-effectiveness date.

54. **Project-Specific Issues.** During the last CPRM to Viet Nam (16 September to 3 October 2008), it was determined that price escalation was negatively impacting the progress of implementation of ongoing civil works contracts for both the Provincial Road Improvement Project and the Central Region Transport Networks Improvement Sector Project. In response, ADB will consider price adjustments for ADB-financed contracts for these two projects. At the same time, the Government should issue prompt and clear instructions on adjusting ongoing contracts to account for price increases. Both projects are also suffering from poor contractor performance. The Government will need to monitor contractors closely, invoking contract provisions as necessary.

55. An issue specific to the Provincial Road Improvement Project is the difficulty in ensuring that all contractor payments will be made before the loan closing date. To address this, ADB has proposed that the loan account be kept open for 5 to 6 months after the loan closing date.

56. In the case of the Central Region Transport Networks Improvement Sector Project, issues have included (i) delays in the finalization of social safeguard reports, which have resulted in delays in the awarding of contracts and adversely affected overall project implementation (para. 58); and (ii) difficulties in recruiting and mobilizing local consultants because of the perception that the rates being offered were low. ADB-required resettlement plans have created problems for PMUs when market-based ADB compensation rates are significantly higher than the Government's fixed rates.

57. **Portfolio Indicators.** Transport project performance in terms of contract and/or commitment achievement has fallen short of annual projections in recent years. In 2005 and

2006, only about 61% of year-end contract projections were attained, while only 24% of year-end commitments were attained. This trend was reversed in 2007 when the year-end targets were exceeded, although it is unclear why this happened. However, as of 30 June 2008, only about 32.4% of projected annual contract and commitment had been achieved. For disbursements, the same trend is noticeable with disbursement achievement falling short in 2005 and 2006 while exceeding the target in 2007. As of 30 June 2008, annual disbursement achievement was estimated at 26%.

58. **Safeguards.** Social and environmental safeguards have played, and will continue to play, a critical role in the implementation of transport projects in Viet Nam. A recurrent theme in all evaluated road projects were delays and problems related to the implementation of ADB-required resettlement plans. PMUs repeatedly and pointedly reported to the IEM that they were having constant difficulties implementing ADB guidelines. The most difficult guideline to comply with was the requirement for the payment of replacement resettlement compensation rates to affected peoples for ADB-financed projects, while at the same time paying lower rates for Government projects, in accordance with Viet Nam laws. When ADB project resettlement plans and Government project resettlement plans were being implemented in the same neighborhood or village, this resulted in serious problems at the community level. The IEM was informed that, at the national legislative level, there has been "harmonization" of Government guidelines with ADB policies. However, harmonized guidelines have clearly yet to reach the local peoples committees charged with carrying out resettlement, nor has the required budgeting been put in place to support this harmonization.

59. **Availability of ADB Human Resources.** The IEM found a lack of operations staff at the VRM to effectively manage the transport portfolio in Viet Nam. ADB should ensure that it has adequate human resources available to (i) internally manage the transport portfolio; and (ii) monitor the work of the executing agencies, consultants, and civil works contractors (this should include more frequent site visits). ADB project operations staff are having to devote too much time to crisis management and not enough time to systematic project overview and project monitoring. This is symptomatic of a lack of human resources. At the time of the evaluation, the newly named Southeast Asia Transport and Urban Development Division (SETU) had a complement of 10 professional staff and five national officers; four professional staff positions were vacant, including the crucial role of head of transport posted to the VRM. At the VRM, one professional staff member is responsible for three continuing delegated transport loans. This post is currently vacant and the lack of operations staff at the VRM will have implications for the future delegation of loan administration to the VRM.

60. **Consultant Recruitment.** A common issue affecting performance has been the selection and contracting of consultants. These processes are often lengthy, resulting in the late appointment of consultants. Reasons include overly bureaucratic procedures, the need for multiple approvals in both ADB and the Government, and the centering of decision making in Manila.

V. PERFORMANCE OF PROJECTS AND TECHNICAL ASSISTANCE (BOTTOM-UP ASSESSMENT)

A. Introduction

61. This chapter examines the performance of ADB-assisted transport projects, particularly in the roads, railways, and ports subsectors, as well as approved TA projects during the study period. Among the main sources of information are (i) project performance audit reports, project performance evaluation reports, and project completion validation reports prepared by the

Independent Evaluation Department, and PCRs prepared by departments concerned; (ii) a desk review of the performance of ongoing loan projects; (iii) a survey of executing agencies, TA consultants, and project officers to assess the performance of TA projects; and (iv) a survey of opinions from executing agencies regarding ADB's performance and client orientation.

B. ADB Lending and Nonlending Support

62. Since resuming operations in 1993, ADB assistance to the transport sector in Viet Nam, including GMS assistance, amounted to loans of \$2.37 billion and TA of \$22.51 million (Tables 1 and 2). During 1993–2008, the transport sector received the largest share (39%) of the total loan disbursements of \$5.9 billion and of this most was invested in roads, with ADB providing 13 loans (excluding a TA loan – Loan 2460) amounting to \$2.26 billion and 18 TA projects worth \$17.34 million to the roads subsector. When GMS loans are excluded, transport is still the largest recipient with some \$985 million. For railways, only one loan worth \$60 million was approved.¹⁸ This loan formed part of the GMS initiative and included an ADTA project.

Table 1: Transport Loan Approvals, 1993–2008

Year	National Transport Projects		GMS Transport Projects		Total	
	No.	Amount (\$ million)	No.	Amount (\$ million)	No.	Amount (\$ million)
1993–1995	2	150.0	0	0.0	2	150.0
1996–2001	3	320.0	2	125.0	5	445.0
2002–2008	3	514.7	6	1,263.0	9	1,777.7
Total	8	984.7	8	1,388.0	16	2,372.7

GMS = Greater Mekong Subregion.

Source: Asian Development Bank database.

Table 2: Technical Assistance to Viet Nam Transport Sector, 1993–2008

Year	PPTA		ADTA		Total TA	
	Number	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)
1993–1995	2	2.95	2	2.40	4	5.35
1996–2001	3	3.28	1	0.12	4	3.40
2002–2008	12	9.95	9	3.81	21	13.76
Total	17	16.18	12	6.33	29	22.51

ADB = Asian Development Bank, ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank database.

63. Aside from one loan to improve Saigon Port, national ADB transport sector projects have mainly supported the rehabilitation of the national and provincial road networks. Three loans addressed the rehabilitation of NH1. The first of a series of loans for provincial and district roads is being implemented, and a second loan for the Central Region was approved in 2005. Loans for three GMS road corridors are being implemented. One loan addressed capacity constraints at Saigon Port, while another addresses improvements to the Ha Noi–Lao Cai railway in the Kunming–Hai Phong (GMS) corridor. Details of these loans are in Appendix 5. ADB's TA (Appendix 2) and policy dialogue with the Government has also focused on the roads and railways subsectors, and has addressed institutional capacity and transport development at the national level.

¹⁸ ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion: Kunming–Hai Phong Transport Corridor: Yen Vien–Lao Cai Railway Upgrading Project*. Manila (Loan 2302-VIE[SF], for \$60 million, approved on 19 December).

64. In terms of TA, ADB provided \$22.51 million during the same period (Table 2). On the average, ADB provided about one loan project and two TA projects per year in the transport sector.

65. This evaluation took into account four completed loans and three ongoing loans (Table 3). Loan 2451 became effective in June 2009, so it is not included in the evaluation. These ratings are based on the IEM's comprehensive review of available project information and an intensive field visit program.

Table 3: SAPE Ratings of Viet Nam National Transport Projects

Item	Approval		SAPE Ratings						
	Date	Status	Relevance	Effectiveness	Efficiency	Sustainability	Impact	Overall	
A. Roads									
1. 1272	Road Improvement	29-Nov-93	completed	Relevant	Effective	Efficient	Less Likely	Modest	Successful
2. 1487	Second Road Improvement	21-Nov-96	completed	Relevant	Effective	Efficient	Less Likely	Substantial	Successful
3. 1653	Third Road Improvement	10-Dec-98	completed	Relevant	Effective	Efficient	Less Likely	Substantial	Successful
4. 1888	Provincial Roads Improvement Sector	18-Dec-01	ongoing	Relevant	Likely Effective	Less Likely	Less Likely	Likely	Likely Partly
5. 2195	Central Region Transport Networks Improvement Sector	11-Nov-05	ongoing	Relevant	Likely Effective	Less Likely	Less Likely	Modest	Successful
6. 2374	Ho Chi Minh City–Long Thanh–Dau Giay Expressway TA Loan	28-Nov-07	ongoing	Likely Relevant				Likely	Likely
7. 2451	Ho Chi Minh City–Long Thanh–Dau Giay Expressway Construction	30-Sep-08	loan not yet effective	Relevant				Substantial	Successful
B. Ports									
1. 1354	Saigon Port	02-Mar-95	completed	Relevant	Effective	Efficient	Sustainable	Substantial	Successful

SAPE = sector assistance program evaluation, TA = technical assistance.

Source: Independent Evaluation Mission.

66. Four of the loans have been completed, and ample data exists to evaluate the performance of these loans. The other three loans are ongoing. They have been included in the evaluation primarily based on a review of the documents available to date, interviews, and site visits. The remaining TA loan became effective in September 2009.

C. Relevance

67. ADB assistance is rated as "relevant." All six evaluated loans were in line with Viet Nam's needs, priorities, and capacities. However, if Viet Nam moves forward aggressively with the development of the national expressway network, the capacity of the Viet Nam Expressway Corporation (and the PMUs) to implement and oversee the increased workload should be assessed. The increased workload could create significant problems, as could the changed character of the work brought about by the need to engage with the private sector in equitable and transparent public–private partnership concessions and/or operation and maintenance agreements. Likewise, all six evaluated loans were, and continue to be, in line with ADB's comparative advantage in infrastructure investment, although this comparative advantage does not materially differ from the World Bank's comparative advantage in the transport sector. The Government indicated to the IEM that present thinking is that ADB should concentrate on local road improvement projects, and that the World Bank should concentrate on national highway improvement projects.¹⁹ Since reducing poverty is the overarching goal of ADB, ADB could look favorably upon this envisioned division of future roads subsector portfolios between ADB and the World Bank.

¹⁹ It is not entirely clear if the Government has indicated a donor preference in any of the other transport subsectors—maritime (including inland waterways), air, or railways.

68. All six of the national highway and local road loans that were evaluated contained both civil works (hard) components and institutional strengthening (soft) components. In a fairly consistent manner, ADB's lending operations focused on critical issues relating to the hard components, but there was no such focus with regard to the soft loan components.

69. As ADB has progressed in its involvement in the transport sector, it has also progressively increased the level of diagnostic analysis that it has used in its operations. The initial two transport projects implemented, Loans 1272 (Road Improvement) and 1354 (Saigon Port), were to a large extent prepared and implemented on an expedient—and in some ways an "emergency"—basis. In the short rationale of the report and recommendation of the President (RRP) for Loan 1354, phraseology like "urgent remedial measures," "significant safety risk;" and "matter of urgency" (referring to the Saigon Port) are used in relatively brief paragraphs. Neither loan contained a design and monitoring framework or similar requirement, and the benefit monitoring and evaluation requirement²⁰ that appears near the end of the RRP for Loan 1272 is both brief and relatively vague. However, in the early 1990s, ADB was just starting its involvement with the roads subsector and the need was for rapid processing. Building on this experience, the next two projects, Loans 1487 (Second Road Improvement) and 1653 (Third Road Improvement), showed an increased level of diagnostics, with much more detailed rationale, and the inclusion of significant "lessons learned." The three most recent projects, Loans 1888 (Provincial Roads Improvement Sector), 2195 (Central Region Transport), and TA Loan 2374 (Ho Chi Minh City–Long Thanh–Dau Giay Expressway), all included well thought out rationales, sections on lessons learned and project performance monitoring, and detailed design and monitoring frameworks. This progression of increased use of diagnostic analysis on transport projects in Viet Nam is a reflection of ADB's increased use of diagnostics over the same timeframe.

70. The evaluation of these loans reveals that ADB has consistently designed the loans so that intended civil works-related outcomes can be achieved. The designs have been less consistent when it comes to the achievement of institutional strengthening outcomes. This pattern started from the very first loan, Loan 1272, in which an expected outcome was to be increased capability of national civil works contractors, through technology transfer received from their international (and lead) partner. But no contractual arrangement (and no specification or special provision) was added to the civil works contract to formally ensure that this technology transfer would actually take place. In the end, there was only a minor degree of capacity development imparted from the Korean general contractor to the Vietnamese subcontractors.

71. **Parallel Paths for Project Preparation.** Once a project is jointly identified between ADB and the Government, both entities begin to process the project.²¹ Alongside the ADB PPTA, the Government has its own specific and very detailed procedures and requirements. ADB typically bases the engineering and cost information needed for the PPTA on feasibility data; collection of new field survey data is minimal (although additional traffic counts are typically part of the process) and few new engineering field investigations are carried out.²² ADB typically contracts a consulting firm to carry out the contract following specific terms of reference. Meanwhile, the

²⁰ "The Government will monitor and evaluate project benefits by compiling and analyzing the necessary traffic data for the project road. MOT will be responsible for collecting and analyzing the survey results and will collaborate with other agencies as necessary. The findings and supporting data will be incorporated into the project completion report, and in a separate report to be furnished to the Bank five years after completion of the proposed Project. The nature of the data to be collected and the methodology for analysis will be agreed upon by MOT and the Bank."

²¹ This does not mean that ADB and the Government start at the same time, and rarely if ever do they complete their preparations at the same time.

²² In discussions with the IEM, the Government referred to the ADB level of investigations as "concept" level, but it would be more correct to classify it as feasibility or preliminary design level.

Government begins compiling an exhaustive collection of topographic, hydraulic and hydrographical survey data, and carries out a series of soils and materials investigations, all with the purpose of having enough data to carry out detailed engineering assessments. The Government recently introduced procedures to ensure that all official development assistance feasibility studies will comply with Government feasibility report requirements.

72. **Adequacy of Designs.** Many of the detailed engineering designs for evaluated projects were inadequate in one way or another. The most serious design problems occurred on Loan 1487, where approximately 60% of the project had to be redesigned during the construction phase, primarily because of a series of errors in topographic control surveys. On the design of provincial and district roads (Loans 1888 and 2195), construction budget limitations established in advance²³ were too often the controlling consideration in design, rather than traffic patterns or appropriate design criteria. Engineering estimates based on appropriate design considerations often came in above the advance construction budget limitations, requiring the designer to redesign the project and lower costs. Decreasing the thickness of the pavement structural section was often one of the first design revisions that took place. It is interesting to note that on the very first project, Loan 1272, the ultimate level of rehabilitation of the pavement section that was required was significantly less than projected in the detailed design. These issues reflect the need for improving the quality of PPTA projects. The ratings in Table 3 reflect these findings. They represent a downgrading from the "highly relevant" ratings given in the PCRs for Loans 1487 and 1653.

D. Effectiveness

73. ADB's assistance is rated as "effective." ADB operations in the transport sector have successfully contributed to outputs and outcomes in support of Viet Nam's goals and objectives. In the roads subsector, the overall output has consisted of the improvement of approximately 1,000 km of national roads and 4,000 km of provincial and district roads; the improvement of hundreds of small (less than 20 m) highway bridges; and the preparation of designs and contract documentation for about 51 km of expressway.

Table 4: Roads Subsector: Civil Works Outputs (km)

Loan Number	Road Class		
	National	Rural (Provincial and District)	Expressway
1272	435	—	—
1487	161 ^a	571	—
1653	400 ^b	1,037	—
1888	—	1,190 ^c	—
2195	—	1,200	—
2374	—	—	51 ^d
Total^e	996	3,998	51

— = not available, km = kilometer.

^a One-hundred nine km is a completely new highway along new alignment, of which 27 km are to a 4-lane divided, partly controlled access design standard; the loan also included four new flyovers.

^b Includes four new 2-lane and 4-lane urban bypasses.

^c The present target output; original design was a sector loan estimated at 1,600 km.

^d Loan 2374 is a technical assistance loan, the Project will be implemented under Loan 2451-VIE; approved 30 September 2008; \$410.2 million. It has yet to be signed or become effective.

^e Output also includes hundreds of small bridges, less than 20 m in length; the exact number is not known, but it is estimated at about 200.

Source: Independent Evaluation Mission.

²³ These were both sector projects, but the Government's concept of "sector" is contrary to ADB's concept. The Government identifies individual road links and assigns an individual budget to each link—i.e., before field investigations and detailed designs have been carried out.

74. Reductions in the road's international roughness indices resulted in increased vehicle speeds which, in turn, reduced travel times. Lower road user and vehicle operating costs could not be readily ascertained in the absence of verifiable data. However, anecdotal evidence indicates that road users' savings may have been realized through, for example, a reduction in pavement roughness (in the case of Loan 1487, from an international roughness index of 10 to 3) and improvements in alignments. Further technical issues are discussed in Appendix 6. The work undertaken at NH1 was generally of good quality. Paved shoulders, underpasses, and overpasses contributed to improvements in local traffic and road safety. More than 50 spot interviews carried out along all project roads indicated a surprising consistency of positive responses with regard to increased land values, increased access to social services, and a general increase in economic activity and opportunity.²⁴

E. Efficiency

75. **Implementation Period.** ADB assistance is rated as "efficient." The median period of delay for implementing a transport loans in Viet Nam was about 24 months. The four loans that have been completed to date had delays of 24, 22, 15, and 24 months. All loans had either one or two extensions. Almost immediately after loan effectiveness, projects invariably started to fall behind schedule, even though permission for advance procurement of consultants and civil works contractors had regularly been granted. Ongoing Loan 1888 is approximately 30 months behind schedule. It is too early to make a definitive prediction on Loans 2195 and 2374, but both are beginning to fall behind the intended implementation timeline. Weather is often quoted in PCRs as a major cause of delays. It cannot be denied that Viet Nam has had some severe rainy seasons and flooding in recent years, particularly in the Central Region of the country, but Viet Nam is located in a tropical weather zone where annual wet seasons are predictable and should, for the most part, be taken into consideration when scheduling construction activities.

76. **ADB Procedures and Requirements.** It is clear that for the first two loans (Loans 1272 and 1354), which became effective in 1994–1995, the Government was new to ADB procedures, guidelines, and requirements for efficiently implementing loans. The VRA was newly established. Technical and administrative staff were being transferred from other agencies to fill positions in the newly operational PMUs. All printed ADB and other guidelines, procedures, and documentation were in English, but many key decision makers had a limited understanding of English. Experienced and competent engineers and technicians were available and were wisely transferred to PMUs, but most of their experience and training had been based on Soviet era concepts and procedures,²⁵ and little was known of internationally accepted specifications and the requirements of standard construction contract documentation. FIDIC (International Federation of Consulting Engineers), the accepted documentation and procedural norm for international contracting and consulting engineering, was virtually unknown in Viet Nam. With these substantial procedural obstacles facing the Government and ADB, it is not surprising that issues have arisen that have created problems and delays.²⁶

²⁴ When residents along all sections of NH1 were queried about increases in land values, the fairly standard response was that land values had increased 10-fold upon the completion of road improvements works.

²⁵ Viet Nam was just in the beginning stages of its economic reform. Transport planning, engineering, and other technical decisions were still being made based on non-economic criteria. The concept of quantifying benefits and looking at potential project investments in terms of economic rates of return were essentially unknown. Only a rudimentary transport data base was in place.

²⁶ What is surprising is that Loan 1272 did not contain a TA component to provide a team of experts (engineers, contract document specialists, and planners) to work side by side, on a daily basis, with counterpart staff at PMU1 at that critical period; and that such TA was not then built upon with a similar, follow-up TA component in Loan 1487 that would have taken into account lessons learned from the first TA component.

77. **Economic Analysis.** The economic internal rates of return for national projects are set out in Appendix 7. It can be seen that assistance has been characterized by reasonably healthy economic benefits in the 13–35% range. These calculated economic returns were subjectively substantiated by the series of site visits made by the IEM.

78. **Construction Contractor Performance.** Inconsistent construction contractor performance has been another common problem that has affected implementation. In general, the performance of civil works contractors has varied considerably from poor to satisfactory, basically on a contract-by-contract basis, with no real discernible pattern. Except that when small, private, province-based contractors were used for smaller provincial contracts, their performance was invariably weak, suffering primarily from a lack of technical, financial, and human resources. This was not unexpected and has been a major drawback in the implementation of Loans 1888 and 2195. A significant part of the problem was similar to what was discussed earlier with respect to ADB procedures and requirements, i.e., construction contractors in Viet Nam were unfamiliar with competitively bid, unit price contracts; and they had little or no knowledge of standard the contractual provisions of FIDIC. Most contractors have been either large SOEs or small, inexperienced, underfinanced provincial contractors. It will take several years before there construction industry in Viet Nam consists of a wide range of privately owned, experienced contractors (small, medium, and large) who are accustomed to operating on a profit-driven, market-oriented basis.

79. **Civil Works Bidding Patterns.** There was a consistent pattern of winning bids being significantly below (generally about 15% below) the estimated cost of the works.²⁷ There have also been occasions where the winning bid was much more than 15% below the Government cost estimate. By law in Viet Nam the lowest bid must be accepted if it is received from a qualified bidder and all other contractual requirements are acceptable. In other words, a bid cannot be rejected, even if it is determined that it is unreasonably low. What typically happens when a "low ball" bid is received is that the contractor immediately falls behind schedule because of a lack of cash, the quality of work suffers, and the contractor ultimately must be removed from the project. Besides low bids, the other main issue negatively affecting the bidding process has been tedious and time-consuming ADB bid analysis practices. ADB could compare bids to expected norms based on past experience and require that consultants justify any unusually low bids received by proving their adequacy for delivering the goods or services required.

80. **Consultant Performance.** In general, the performance of consultants on the projects evaluated was satisfactory. The two exceptions were Loans 1272 and 1653, where the performance of the supervision consultants was poor for the first year, but ultimately improved and was ultimately rated as satisfactory. The most common problem throughout the spectrum of consultants used on evaluated projects was the frequent turnover of international consultant staff. On Loan 1272, the project manager was changed twice and the pavement engineer was replaced five times; and on Loan 1653, the project manager was also changed twice and two of the four resident engineers were replaced. Most of the other consultancies have also replaced international staff, but to a lesser degree. The other issue with consultants that affected project implementation was the consistently lengthy selection and contracting process, which often resulted in delayed appointment of consultants. Reasons for this include overly bureaucratic

²⁷ The IEM was told of one instance where a large SOE bidding on Loan 1653 resubmitted its bid on the final day to include a significant "discount" in an effort to ensure that it was the lowest bid.

procedures, the requirement for multiple approvals, and the centering of decision making in Manila.²⁸

F. Sustainability

81. **Financial Resources.** ADB assistance is rated as "less likely" to be sustainable. By most accounts, highway maintenance in Viet Nam is currently underfunded by about 50% countrywide. The Government has been funding maintenance for ADB-financed roads to a reasonable level, essentially in accordance with loan covenants. This is also the case with World Bank-funded sections of NH1. It follows, therefore, that many sections of the national road network are getting much less than half of the maintenance funds they require. Over the past 10 years, Viet Nam has devoted considerable resources to rehabilitating and upgrading many of its key national roads, with emphasis on the three World Bank-funded and three ADB-funded projects that upgraded and widened the 2,200 km NH1.²⁹ Efforts have likewise been expended on a series of projects to reconstruct and upgrade targeted local roads.³⁰ Little routine maintenance and essentially no periodic maintenance will be required for the first few years of these roads' existence. But as these roads age and traffic increases, they will require more and more routine maintenance as well as more costly periodic maintenance (primarily pavement overlays and bridge maintenance). The question planners and economists need to address is whether economic growth can continue at a pace that will generate enough tax revenue to properly maintain these road investments.³¹ To date, marginally sufficient maintenance funding has been made available for the three projects centered on NH1, but it is not a given that a similar level of funding will be provided for periodic maintenance overlays, or that sufficient funds will be passed down to provinces to maintain the scattered road sections being constructed under Loans 1888 and 2195. Assurances have been made by the Government that funding will be made available, but the enormity of the underfunding problem should lead one to proceed with caution in evaluating the financial sustainability of these roads—particularly provincial roads.³² Options for drumming up more funds include annual vehicle registration fees and fuel surcharges. Under ADB's sustainable transport initiative, sustainability in four areas is being proposed: (i) economic, (ii) environmental, (iii) social, and (iv) financial. It is proposed that the "user-pays" principle be applied to ensuring sustainability in the financial area. This would align with the proposal to enact user charges to finance the maintenance budget shortfall.

²⁸ See the discussion in ADB. 2007. *Special Evaluation Study on the Performance of Technical Assistance*. Manila.

²⁹ Some of the other national roads that have been improved with international donor assistance include NH5, NH10, NH18, together with several urban and bypass highways; ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Rural Infrastructure Sector Project*. Manila (Loan 1564-VIE[SF], for \$105 million, approved on 23 October); as well as GMS projects such as ADB. 1998. *Report and Recommendation of the President to the Board of Directors on Proposed Loans to the Kingdom of Cambodia and to the Socialist Republic of Viet Nam for the Greater Mekong Subregion: Phnom Penh to Ho Chi Minh City Highway Project*. Manila (Loan 1660-VIE[SF], for \$100 million, approved on 15 December).

³⁰ In addition to ADB Loans 1888 and 2195 targeting provincial roads, \$340 million has been lent by donor partners to improve district and commune roads. Loan projects include the Rural Transport Project I (World Bank), the Rural Transport Project II (World Bank/DFID); the Rural Access Project (DFID), and the Rural Infrastructure Development and Living Standard Improvement Project, Loan II (Japan Bank for International Cooperation).

³¹ Based on the RRP prepared in 2005 for Loan 2195, para. 60, a World Bank road maintenance financing study determined that that it would take about 10 years, i.e., until 2015, for Viet Nam to break even with respect to road maintenance on a national basis; roads to be implemented under Loan 2195 were deemed sustainable based on that study.

³² Para. 9, Appendix 2 of the RRP for Loan 2195 indicated that information received from provincial departments of transport (PDOTs) showed that the amount allocated for routine and periodic maintenance of provincial roads was \$700/km, and that in many cases only 50–60% of that amount is actually being expended. It noted that by international standards this level of expenditure is too low to maintain roads to any reasonable standard.

82. **Human and Institutional Resources.** The VRA is responsible for the maintenance of national highways. Provincial departments of transport are responsible for maintaining provincial roads. Assistance was provided to the VRA under the implementation sector development policy component of Loan 1653 to successfully put in place a system of procedures for national network management. It developed the road information management system (RIMS) and supported organizational structures for its implementation, but the RIMS never became operational because of a lack of suitable input data. The VRA is reportedly still struggling to acquire human and financial resources to collect this system-wide data on a timely and periodic basis. The systematic collection and input of this data is the basis for operation of a comprehensive national road maintenance management system. Provinces are also suffering from a lack of systematic road maintenance management processes to enable provincial departments of transport to monitor road conditions, quantify work requirements and costs, and substantiate requests for increased maintenance budgets. This lack of resources also leads one to be cautious with regard to sustainability.

83. **Political Will and Support.** It is very common among road administration institutions in most developing countries for road maintenance to take a back seat to planning, designing, and construction. Patching potholes, repairing guardrails, and laying down pavement overlays is not typically considered "glamorous" by highway engineers, and rarely is accorded the importance it deserves from budget agencies, policy makers, and politicians. Allocating sufficient monies for maintenance inevitably reduces funds available for new construction. It is often a sign of maturity when a road administration institution finally realizes the important role of maintenance in a highway network. The VRA and MOT recognize the critical role of maintenance, but may need assistance in establishing an appropriate institutional structure to ensure that maintenance commitments are met.

G. Impacts

84. ADB assistance is rated as "likely substantial impact."

85. **Economic Development.** ADB assistance to Viet Nam has been successful in impacting economic development. Early loans were more centered on impacting economic recovery. As the country began to recover from decades of conflict and economic isolation, the focus of assistance gradually moved from economic recovery to economic development. The most recent assistance, Loan 2374, is classified as general intervention, but its main themes are sustainable economic growth and private sector development. Clearly ADB, although a relatively minor player in the overall development of the country over the last 15 years, has made an important impact in the transport sector.

86. **Poverty Reduction.** All three NH1 projects, as well as the Saigon Port loan, carried the ADB classification of "economic growth." The two provincial road loan projects were classified under "poverty intervention" (Loan 1888) and "general intervention" (Loan 2195). Yet the SAPE revealed that six of the seven loans have had or will have significant direct or indirect benefits on the poor. For the two local road projects, it can be expected, based on a review of the documents and collaborated by site visits, that a large percentage of the more than 2,000 km of

provincial and district road links³³ will ultimately benefit the poorest of the poor in many of the most remote and isolated parts of the country.³⁴

87. **Environmental Impact.** Although overall the IEM found no evidence of major direct negative environmental impacts, some issues have arisen on specific projects. For example, the design of the rehabilitation of NH1 under Loan 1653 did not take into account that NH1 acts as a dyke inhibiting the free flow of storm discharge to the east. Instead of focusing on upgrading and/or rehabilitating existing drainage structures, the detailed design should have called for a study to identify the best locations to construct additional openings to reduce the periods of inundation. There have also been instances where spoil at excavations sites was incorrectly disposed of, particularly in hilly locations where discharge down slopes has caused some erosion problems. However, indirect environmental impacts of road and rail use have not been internalized in projects.

88. **Regional Cooperation and the Greater Mekong Subregion.** There is no apparent clear synergy between the national and GMS programs in terms of a comprehensive road map for ADB assistance. To the extent that every road in Viet Nam is ultimately connected to the GMS transport corridors, all roads could be deemed as having an effect on regional cooperation. However, in terms of developing GMS transport corridors, only Loan 1487, which improved NH1 from the Chinese border near Lang Son to Ha Noi, will have direct regional benefits. The border crossing north of Lang Son is Viet Nam's most active border crossing, and the section of NH1 improved under Loan 1487 provides a high speed, high capacity link from southern People's Republic of China to Ha Noi, and on to the major northern port of Hai Phong.

H. Technical Assistance

89. The evaluation of TA focused on ADTA projects. The major finding is that there has been little impact in terms of improving the institutional capabilities of implementation agencies. In particular, Government ownership of TA projects is weak and some TA projects tend to be supply driven and have not reflected the Government's needs or requirements.

90. **Weak Government Ownership of ADTA Projects.** Among the ADTA projects reviewed, weak ownership by the Government was found for (i) TA 4028: Transport Services Networks for the Poor; (ii) TA 4410: Small-Scale TA on Development of the Transport Sector, Review of Policy and Regulations; and (iii) TA 4695: Expressway Network Development Plan. The executing agencies for these TA projects indicated that they would have preferred to have far greater involvement in the preparation, selection, and implementation processes.

91. **TA Design Does Not Always Reflect Government's Needs.** In the case of TA 4028, one of the outputs was the development of a user-friendly software program to help provincial officials prioritize and select their rural roads subprojects from the annual, five-year, and provincial master plans. It was pilot-tested in two provinces where much interest was generated from provincial and district officials. However, the IEM discovered that there was little application of this output on the part of the Government. The Government views this TA project as responding to ADB's needs, rather its own needs. It has a similar perception of TA 4410. Even

³³ Both projects are ongoing sector loans and when completed each loan is expected to improve more than 1,000 km of local roads affecting 18 Northern provinces (Loan 1888) and 19 central provinces (Loan 2195). In the end, it is expected that more than 100 individual road links will be improved to allow all-weather accessibility.

³⁴ It should be noted that in many of the targeted provinces most beneficiaries will be ethnic minorities, often living in remote highlands.

after the completion of the TA project, the Executing Agency is unsure how the results will be applicable to the Government.

92. An interview with the Executing Agency of TA 4695 during the IEM indicated that the TA outputs were deemed not practical and added to an existing local study. Some TA outputs have been partly utilized by the Government. For example, the expressway network master plan developed under this TA project was used as a reference by the Government in developing its own master plan.

93. These examples indicate a need to design TA projects that are closely aligned with the Government's thrusts and needs. In preparing a TA program, careful attention should be paid to remove the perception that ADTA projects are supply-driven. The rationale and relevance of a TA project should be more clearly articulated, especially during conceptualization.

94. Additionally, loan outputs have included the following TA components:

- (i) **Loan 1272.** No specific component or contract provision was built into the loan to deliver TA,³⁵ although the RRP listed institutional strengthening of road administration institutions and strengthening of local construction contractors as target outputs.
- (ii) **Loan 1487.** The institutional strengthening component targeted the VRA, which was established in January 1993. The institutional strengthening consultant was to "focus on effective application of information technology to road management" and to develop human resources at the VRA by increasing management skills. Instead, the consultant concentrated on producing the final draft of the Road Act and a road management manual. Although the institutional strengthening consultant performed satisfactorily and carried out the terms of reference, no discernible increase in institutional capability occurred at the VRA.
- (iii) **Loan 1653.** The consultant for the implementation of sector development policy component fulfilled its terms of reference satisfactorily; it successfully developed a roads information management system with modules for analysis of long-term road maintenance, yet only a 200 km sample or pilot section of NH1 was surveyed to provide road condition input data.
- (iv) **Loan 1888.** TA components have been carried out to provide (a) support for PMU5 (now PMU6) and provincial PMUs and departments of transport, including temporary personnel, office equipment, supplies, and office and vehicle operating expenses; (b) on-the-job and formal training of provincial staff, which built upon previous projects funded by ADB, DFID, and JBIC; and (c) capacity development in environmental impact assessment and monitoring, and in resettlement and ethnic minority development supervision and monitoring.
- (v) **Loan 2195.** The implementation of the Institutional Development Component is ongoing. Outputs included assistance to provinces (a) to prepare provincial road network plans; (b) to produce and implement provincial road maintenance management processes; (c) to implement periodic maintenance plans by introducing competitive bidding; (d) to increase resettlement, social, and environmental capacity; and (e) to establish a pilot provincial road safety program in three provinces. All of the above outputs were designed to be consistent with DFID Central Region provincial assistance under its Rural Transport 3 Project.

³⁵ Attached TA projects 1996 and 1997 are discussed and evaluated elsewhere in the report.

95. Throughout ADB's engagement in the transport sector, past strategies and programs have provided minimal strategic direction for nonlending assistance to the transport sector. TA projects have lacked synergy to reinforce the impact of one another. Given the increasing need for policy and institutional reforms, nonlending support (including TA projects and economic and sector studies) could be targeted more toward identifying key areas where ADB assistance might add value to the transport sector, including the appropriate choice of operational modality.

VI. OVERALL ASSESSMENT, CONCLUSIONS, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment

96. An analysis of key strengths, weaknesses, opportunities, and threats is presented below.

<p>Strengths</p> <ul style="list-style-type: none"> • Alignment of the transport strategies and programs of the Asian Development Bank (ADB) with the Government's major priorities and programs • Effective coordination with other donors helped harmonize aid assistance • Strong comparative advantage in terms of knowledge of the roads subsector 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Insufficient efforts exerted on institutional strengthening • Weak Government ownership of advisory technical assistance projects • Lengthy project preparation process • Weak capacity-building analysis at both national and provincial levels • Inadequate ADB staff resources
<p>Opportunities</p> <ul style="list-style-type: none"> • To facilitate private sector participation leveraged on ADB investment, possibly through public-private partnership • To assist with the development of strong and sustainable transport institutions • To promote progress toward increased efficiency and private sector participation in state-owned enterprises 	<p>Threats</p> <ul style="list-style-type: none"> • Poor transport asset management negatively impacting Government's capacity for transport development • Bureaucratic inefficiencies, including multiple institutional layers and complex project management unit arrangements • Road maintenance is largely under funded • Continued underbidding of some local contractors • Weak private sector participation

1. Rating Method

97. The evaluation of ADB's support to Viet Nam's transport sector was rated using a "top-down" and "bottom-up approach." This approach is based on the Independent Evaluation Department's guidelines for CAPEs.³⁶ The top-down assessment examined ADB's strategic positioning in the roads subsector with reference to the railway and ports subsectors and ADB's performance and client orientation in managing and implementing the program. The bottom-up assessment considered the relevance, effectiveness, efficiency, sustainability, and impact of lending and nonlending operations, focusing mainly on projects and TA that were approved and completed during the study period and an assessment of ongoing projects. The overall rating took into account the top-down and bottom-up ratings.

2. Top-Down Assessment

98. **Strategic Positioning (paras. 29–40).** Following the resumption of ADB's operations in Viet Nam in 1993, there was a strong alignment of ADB's strategy for supporting the transport sector with Government's priorities for the rehabilitation and improvement of transport infrastructure. This was reflected in the 1993 IOS. A broadening of ADB's strategy for assistance to include ports and railways began with the 1995 COS and continued until the 1997

³⁶ ADB. 2006. *Guidelines for the Preparation of Country Assistance Program Evaluation Reports*. Manila.

CAP, which reverted to a narrower focus. The emphasis since then has been on roads, with efforts to support the proposed programs with policy reforms (those efforts have achieved limited success). The rating for strategic positioning is "high."

99. **Value Addition (paras. 41–50).** Although it is difficult to quantify the value addition of ADB's assistance to the transport sector, considerable benefits have undoubtedly resulted from this assistance, including asset management systems and policy reform. Interviews conducted by the Independent Evaluation Mission with residents along project roads consistently returned positive comments about real benefits that the roads had brought. The rating for value addition is "substantial."

100. **ADB Performance (paras. 51–60).** ADB's support for the roads subsector has been consistently strong and appreciation of ADB's interventions was made clear to the Independent Evaluation Mission by senior Government officials. More could have been done to foster ownership of the associated TA program, but this does not detract from the overall good performance of ADB in delivering what the Government wanted. The rating for ADB performance is "substantial" (on the low side).

101. **Overall Top-Down Rating.** Based on the above, the overall top-down rating is "successful."

3. Bottom-Up Assessment

102. **Relevance (paras. 67–72).** Projects have consistently been relevant to the needs and priorities of the Government, have been in line with the comparative advantages of ADB, have been harmonized with support provided by other development partners, and have largely been appropriately designed to achieve intended outcomes. Lending operations have been well focused with regard to civil works requirements, but less focused on aiding the development of sustainable institutions in the transport sector (within the VRA, for instance). In the mid-1990s, operations were initially driven by expediency and getting projects started because of the need for "urgent remedial measures"; but once beyond this initial "emergency" phase, strong diagnostic analyses were used to prepare and carry out projects. There were some issues concerning the weak ownership by the Government of ADTA projects and that TA design did not always reflect the Government's needs (paras. 90–91). Overall, ADB assistance is rated as "relevant."

103. **Effectiveness (paras. 73–74).** ADB operations were successful in contributing to outputs and outcomes in support of Viet Nam's goals and objectives. Operations generally achieved results as defined by COSs, CSPs, and country partnership strategies. Outputs in terms of construction of physical infrastructure often exceeded targets, primarily because funds remained in loans due to low bids, and because the contingency component of loans was underutilized. This meant that additional infrastructure construction was often added to loan scope. ADB assistance is rated as "effective."

104. **Efficiency (paras. 75–80).** In the broad socioeconomic context ADB assistance was efficient, with reasonably high economic rates of return on investments on the four completed loans of 20.3–34.7% according to the PCR (compared with 18.1–32.3% at appraisal). The assistance has been less efficient in targeting resources to institutional development. Overall, ADB assistance is rated as "efficient."

105. **Sustainability (paras. 81–83).** To date, marginally sufficient maintenance funding has been made available for the three projects to improve NH1, but it is not a given that a similar level of funding will be provided for needed periodic maintenance overlays, or that sufficient funds will be passed down to provinces to finance maintenance of the scattered road sections being constructed under Loans 1888 and 2195. Assurances have been made by the Government that funding will be made available, but the scale of underfunding remains a problem, particularly for provincial roads. Another issue concerns institutional sustainability. The roles and responsibilities of MOT, MOC, VRA, Viet Nam Expressway Corporation, and the PMUs have yet to be clearly defined. In view of these uncertainties, ADB assistance is rated as "less likely sustainable."

106. **Impact (paras. 84–88).** ADB operations have had their most positive impact on economic development. As the full impacts of Loans 1888 and 2195 take hold over the next few years, the impact of ADB operations will begin to shift more toward poverty reduction, and will also begin to have a more positive impact on social and environmental concerns. ADB assistance is rated as having had a "likely substantial impact."

107. **Overall Bottom-Up Rating.** Based on the above, the overall bottom-up rating is "partly successful."

4. Overall Assessment

108. The overall assessment of ADB assistance to the transport sector is "successful." Tables 5 and 6 show the components of the overall rating.

Table 5: Overall Top-Down Rating

Criterion	Rating Scale	Overall Rating (scale of 0–8)	Description
Strategic Positioning	0–8	7	High
Value-Addition	0–8	6	Substantial
ADB Performance	0–8	5	Substantial (low side)
Overall	24	18	Successful

ADB = Asian Development Bank.

Note: Aggregate top-down sector performance is considered highly successful if the total score is equal to or greater than 20; successful if the total score is between 16 and 19; partly successful if the total score is between 11 and 15; and unsuccessful if the total score is 10 or less.

Source: Independent Evaluation Mission.

Table 6: Overall Bottom-Up Rating

Criterion	Rating Scale	Overall Rating	Description
Relevance	0–3	2	Relevant
Effectiveness	0–6	4	Effective
Efficiency	0–3	2	Efficient
Sustainability	0–6	2	Less Likely
Impact	0–6	4	Likely Substantial
Overall	24	14	Partly Successful

Note: Aggregate sector performance is assessed as highly successful if the total-sector performance score is equal to or greater than 20, successful if the total-sector performance score is greater than 15 and less than 20, partly successful if the total-sector performance score is greater than 10 and equal or less than 15; and unsuccessful if the total-sector performance score is 10 or less.

Source: Independent Evaluation Mission.

B. Issues

109. **Indebtedness of State-Owned Enterprises.** The current high levels of indebtedness of SOEs under the tutelage of MOT (para. 15) has effects both at the national level (where MOT SOE debt represents about 1.5% of GDP) and in terms of the efficient use of resources for construction. Although underbidding can lead to increases in project scope, it ultimately adds to the level of indebtedness and can crowd out the nascent private sector construction industry. There is a need to establish an equitable environment and encourage fair competition. This will ultimately require increased private sector involvement in SOEs. The first steps have already been taken through the process of equitization, but much remains to be done. Additional steps could include cleaning up balance sheets to take full account of items such as foreign exchange losses and the real value of current debt; consideration of possible management contracts to improve SOE performance; and increasing participation of the private sector through both public-private partnerships and equity investment.

110. **Relationship with the Greater Mekong Subregion Program.** As discussed in para. 38, there is no clear consistency between the GMS and national programs. The GMS program is focused on expressway construction, while the national program focused on provincial roads. The benefits from GMS investments in a regional sense will only be realized when the true regional components of the program are completed (for example, cross-border trade agreements and the harmonization of both physical and procedural cross-border arrangements). Currently, GMS investments are largely seen by the Government as a means to develop national infrastructure, rather than as a means to foster regional cooperation.

111. **Involuntary Resettlement.** The differences between ADB and Government rates for compensation have created difficulties for the Government and confusion for some recipients, as discussed in para. 58. The Independent Evaluation Mission understands that this issue has been addressed on a project-by-project basis, but perhaps the time is right for a substantive countrywide agreement to ensure that guidelines agreed to by ADB and the Government are uniformly applied in ADB project areas.

C. Conclusion and Lessons Identified

112. ADB has had a successful program of investments in the roads subsector, both through national and GMS investments. The program of support to other transport subsectors has been limited but successful. The decision to focus on the roads subsector had the benefit that ADB was able to use its strengths in roads and knowledge of the roads subsector to good effect. Provided that other development partners are supporting other sectors, and are thus collectively providing a holistic program of assistance to the Government in the transport sector, this approach is appropriate. However, a major program change is in the cards, as proposed future investments target urban mass transit systems and railways in addition to expressways. Several lessons taken from past and ongoing projects need to be taken into account if the broader future program is to succeed and if sustainability is to improve. These include:

- (i) design flexibility—standard designs may not always be appropriate for varying local conditions (in mountainous areas, for example);
- (ii) project preparation—the time lag between project identification and project effectiveness needs to be shortened;
- (iii) underbidding—this problem has left some contractors with insufficient funds for successful implementation;
- (iv) safeguard harmonization—already agreed to in principle, but needs to be implemented;

- (v) institutional strengthening—needs more attention, particularly in light of potentially large increases in future investment flows, and a recent incident involving an MOT PMU;
- (vi) transparency—the use of equitized SOEs to bid on ADB-funded projects when they may still be effectively under Government control may result in conflicts of interest and has also resulted in some reported cases of underbidding to secure contracts;³⁷
- (vii) capacity analysis—not enough has been done to identify capacity building needs, particularly at the provincial level; and
- (viii) TA ownership—TA could be more demand driven to improve ownership.

113. ADB has coordinated well with other development partners, and this cooperation needs to continue for the Government to maximize the benefits of assistance. This evaluation has also shown that a focused program of assistance (for example, on NH1) properly coordinated with other development partners results in success.

114. Viet Nam's future transport infrastructure requirements are huge. Various estimates have been made of future investment requirements in the transport sector through 2010 and 2020. Annual projections vary from a low of D24 trillion (\$1.4 billion) to a high of D99 trillion (\$5.7 billion) through 2010. The desired annual transport investment between 2002 and 2020 is D118 trillion (\$7.5 billion) per year, with almost 60% of that total in rail and urban transport. To place these figures in perspective, 2002 transport expenditures were D24 trillion (\$1.5 billion).

115. Using actual GDP figures for 2002–2005 (estimated for 2005) and assuming real GDP growth of 7% per annum between 2005 and 2010, the estimated requirement for Government expenditures on transport, as proposed in Viet Nam's 2020 Transport Strategy, was about 12% of cumulative projected GDP. These expenditure levels, according to the World Bank, were clearly too high and cannot be achieved without significantly neglecting other equally vital sectors of the economy. A more reasonable and sustainable level of transport expenditures would be 3.5–4.0% of GDP. This level is higher than Viet Nam's average between 1994 and 2002 (3.2%) but lower than the 2001–2002 expenditure levels. It would yield a range of D164 trillion (\$9.4 billion) to D210 trillion (\$12 billion), an annual average of D33 trillion (\$1.9 billion) to D42 trillion (\$2.4 billion). At the same time, private investment in the sector has been very low, accounting for less than 2%.

116. Overall, the current rapid expansion of funds for transport development in Viet Nam needs to be viewed against the risks involved with those funds being channeled through relatively weak institutions to contractors still under the control of the state sector.

D. Recommendations

117. **In light of expanding transport sector operations, develop a governance plan that will comprehensively address the institution building and organizational changes required to mitigate the risks of the current institutional arrangements. Responsibility: Southeast Asia Department (SERD) by end-2010.** Producing the plan would require gaining a thorough understanding of the existing and proposed future actions of government in developing the institutions involved with transport development and a transport sector governance risk assessment. This could be followed by an assessment of the suitability of current institutional and organizational arrangements and the activities of development partners.

³⁷ Equitized SOEs are supposed to conduct business independently of the Government within current legislation.

118. **Consider providing "real-time" advisory support to Government for new areas of intervention, such as private sector participation in investments. Responsibility: SERD by end-2010.** The provision of "real-time" support would address a need expressed by the Government for practical support in areas such as private sector participation and the development of public-private partnerships, rather than just training.

119. **Through close cooperation with other development partners, improve the sustainability of projects by gaining Government commitment to maintenance funding. Responsibility: SERD/Other Development Partners by end-2010.** This may involve a further coordinated approach to the Government to ensure that all future interventions have a strong focus on the need for the funding and carrying out maintenance.

120. **Review bidding arrangements to ensure that underbidding does not adversely affect project performance and that transparency is maintained in contracts with the equitized SOE sector. Responsibility: SERD/Implementing Unit/Other Development Partners by end-2010.** This may require the establishment of "norms" for construction costs against which individual bids can be assessed for realism. In addition, subcontractor performance would need to be assessed against the resources that they have available.

121. **Review current staffing requirements at both ADB headquarters and VRM to ensure that the expanding transport portfolio is appropriately resourced. Responsibility: SERD/Human Resources Division by end-2009.** This could involve a reassessment of the overall staffing needs and staff location in order to ensure efficient and effective portfolio management.

SCOPE, OBJECTIVES, APPROACH, AND METHODOLOGY

A. Scope and Objectives

1. The sector assistance program evaluation (SAPE) tracked the cumulative contribution of the Asian Development Bank (ADB), over the 16-year study period, to each of the priorities established by its roads and railways subsector strategies within the country assistance plans and country strategy and program (CSP), as well for any other priority subsector initiatives that emerged during implementation of the country assistance plans and CSP. For each of these priority areas, it identified ADB's combined contributions over the period—through policy dialogue, lending, technical assistance (TA), and sector work—and evaluated their outcomes. This SAPE examines the following core areas:

1. Strategic Assessment

- (i) **Strategic direction.** Did ADB's strategies for roads and railways provide a sound direction for ADB support, taking into account Viet Nam's needs and priorities, the support provided by other donors, and ADB's comparative advantages? In particular, the assessment covers whether ADB's operations were adequately sequenced taking into account capacity constraints, the role of other donors, and the need for continuity.
- (ii) **Alignment of program with strategy.** Was ADB's program of loans, TA, and other sector assistance work aligned with both ADB and Government strategies for roads and railways in terms of consistency, completeness and coherence? This also includes an assessment of the degree of Government program ownership and the degree to which ADB's program was flexible in response to changing Government demands.

2. Development Effectiveness

- (i) **Performance of assistance program.** What were the results and impact of ADB's program, and was ADB support effective, efficient, and sustainable? Issues to be covered include a) how political economy factors affected performance, b) the role of the private sector, c) how the program contributed to inclusive economic and environmentally sustainable growth, and d) regional integration.
- (ii) **Value addition of ADB support.** What was the contribution and influence of ADB support to Viet Nam? Did ADB support address the needs, priorities and challenges of the roads and railways subsectors, and where did this support add value?
- (iii) **Performance of ADB.** How effective a development partner was ADB in terms of the quality of its dialogue, advice, and support; its responsiveness to country needs; and its consistency in following its mandate, objectives, and strategies? Issues covered include a comparison of ADB's performance with that of other donors in the sector, and the effect of external factors on performance.
- (iv) **Lessons.** What lessons and good practices can be derived? Issues include whether ADB's focus is appropriate and which approaches have worked best.

2. The SAPE attempts to identify where ADB's investments have added value. Areas covered include (i) the transfer, dissemination, and take-up of technology and knowledge; (ii) enhancing the design and implementation of ADB-financed projects, including safeguards and anticorruption measures; (iii) enhancing the design and implementation of associated projects and umbrella programs; (iv) identifying sector issues and assisting the Government with

introducing initiatives to address them; and (v) contributions to sector reform and institutional strengthening initiatives. By identifying successes in value addition, and identifying areas where greater value addition could be achieved, the SAPE aims to contribute to the formulation of the next CSP and ADB's transport sector strategy for Viet Nam.

B. Approach and Methodology

3. The SAPE was carried out through a combination of studies, interviews, and document review conducted in Viet Nam and at ADB headquarters. Study components were (i) background analysis of the transport sector, (ii) comparator assessment, (iii) analysis of strategic fit, (iv) evaluation of completed ADB projects, (v) assessing the impact of policy-oriented advisory technical assistance (ADTA), and (vi) survey of key informants.

4. **Background Analysis of the Transport Sector.** Building on the information contained in this paper, an analysis was undertaken of the key supply and demand issues affecting the development of the transport sector in Viet Nam, the Government's objectives and strategy for the sector, current institutional and governance structures, and the relative roles of the private and public sectors (including the role of state-owned enterprises). Results were summarized in an analysis of strengths, weaknesses, opportunities, and threats.

5. **Comparator Assessment.** An assessment was made of the relative contributions to the transport sector from Government, the World Bank, Japan Bank for International Cooperation, the UK Department for International Development (DFID), and ADB. The intention was to highlight areas where there have been synergies between programs as well as areas of possible overlap.

6. **Analysis of Strategic Fit.** The relationship between ADB's program, as set out in strategic documents such as past CSPs, and the Government's strategic objectives was assessed. This focused on both the overall program and the relevance of individual program components to the strategy.

7. **Evaluation of Completed ADB Projects.** Both past and continuing projects were evaluated against the criteria of relevance, efficiency, effectiveness, impact, and sustainability. This involved an in-depth review of project completion reports, project performance evaluation reports, back-to-office reports, and past evaluations including the recent GMS transport sector SAPE. Any completed projects that have not been covered by past evaluations were subjected to a project completion reports validation exercise. Following the review of existing documentation, a series of field visits was undertaken to assess both the technical and economic aspects of the investment. For each project, a loan summary sheet was prepared.

8. **Assessing Impact of Policy-Oriented ADTA.** ADTA projects were evaluated against the criteria of relevance, efficiency, effectiveness, impact, and sustainability using a review of all available existing documentation, including TA completion reports, TA papers, and findings from the GMS regional cooperation assistance program evaluation. A series of questionnaires was then used for structured interviews with executing agencies, project officers, and consultants.

9. **Survey of Key Informants.** Throughout the evaluation, the opinions and experiences of key informants were sought both through structured questionnaires and through interviews and meetings with project beneficiaries, nongovernment organizations, other donors, and the private sector.

10. The approach to performance assessment and rating drew upon the Independent Evaluation Department's guidelines for preparation of country assistance program evaluations. The evaluation rated (i) ADB's strategic contribution ("top-down" rating) in terms of its sector positioning, contribution to development results at the sector level, and ADB performance; and (ii) the relevance, effectiveness, efficiency, impact, and sustainability of lending and nonlending operations ("bottom-up" rating), focusing mainly on projects and TA approved and completed during the study period. A combination of the top-down and bottom-up ratings was used to derive overall ratings for the sector using weightings based on the value of lending approvals over the period.

**ADB LOANS AND TECHNICAL ASSISTANCE TO VIET NAM IN THE
TRANSPORT SECTOR, 1993–2008**

Table A2.1: Loans

Loan No.	Project Name	Fund Type	Loan Amount (\$ million)	Approval Date
A. National Roads				
1272	Road Improvement	ADF	120.0	29-Nov-93
1487	Second Road Improvement	ADF	120.0	21-Nov-96
1653	Third Road Improvement	ADF	130.0	10-Dec-98
1888	Provincial Roads Improvement Sector	ADF	70.0	18-Dec-01
2195	Central Region Transport Networks Improvement Sector	ADF	94.5	11-Nov-05
2374	Ho Chi Minh City–Long Thanh–Dau Giay Expressway (TA Loan)	ADF	10.0	28-Nov-07
2451	Ho Chi Minh City–Long Thanh–Dau Giay Expressway Construction	OCR	410.2	30-Sep-08
	Subtotal		954.7	
B. Ports				
1354	Saigon Port	ADF	30.0	2-Mar-95
	Subtotal		30.0	
C. Railways				
	None			
Total			984.7	

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, TA = technical assistance.
Source : ADB loan, TA, grant, and equity approvals database.

Table A2.2: Technical Assistance

TA No.	Project Name	ADB Amount (\$)	JSF (\$)	Other Sources (\$)	Total Amount (\$)	Approval Date
A. Project Preparatory Technical Assistance (PPTA)						
1. Multimodal Transport and Sector Development						
4050	Kunming–Haiphong Transport Corridor	0	1,000,000	0	1,000,000	18-Dec-02
4050	Kunming–Haiphong Transport Corridor (Supplementary)	0	350,000	0	350,000	14-Jun-05
4862	Ho Chi Minh City Metro Rail System	0	1,700,000	0	1,700,000	2-Nov-06
4900	Hanoi Metro Rail System	400,000	0	0	400,000	18-Dec-06
4862	Ho Chi Minh City Metro Rail System (Supplementary)	0	0	200,000	200,000	12-Oct-07
4862	Ho Chi Minh City Metro Rail System (Supplementary)	200,000	0	0	200,000	5-Jun-08
4862	Ho Chi Minh City Metro Rail System (2nd Supplementary)	300,000	0	0	300,000	8-Oct-08
	Subtotal	900,000	3,050,000	200,000	4,150,000	
2. Ports, Waterways, and Shipping						
2615	Red River Waterways	0	600,000	380,000	980,000	24-Jul-96
	Subtotal	0	600,000	380,000	980,000	
3. Railways						
	None					
4. Roads and Highways						
1997	Second Road Improvement	0	2,100,000	0	2,100,000	29-Nov-93
1997	Second Road Improvement (Supplementary)	0	850,000	0	850,000	31-May-95
2636	Third Road Improvement	0	1,300,000	0	1,300,000	29-Aug-96
3455	Provincial Roads Improvement	0	1,000,000	0	1,000,000	14-Jun-00
4034	Central Region Transport Network	0	1,000,000	0	1,000,000	13-Dec-02
7009	Second Ring Road (Completing the Circle)	0	1,000,000	0	1,000,000	11-Dec-07
7045	Central Mekong Delta Region Connectivity	0	800,000	0	800,000	17-Dec-07
7154	GMS: Ha Noi–Lang Son and Ha Long–Mong Cai Expressway Projects	1,500,000	0	0	1,500,000	23-Oct-08
7155	Ben Luc Long Than Expressway Project	0	1,500,000	0	1,500,000	23-Oct-08
	Subtotal	1,500,000	9,550,000	0	11,050,000	
	Total PPTA	2,400,000	13,200,000	580,000	16,180,000	
B. Advisory Technical Assistance (ADTA)						
1. Multimodal Transport and Sector Development						
4410	Development of the Transport Sector, Review of Policy and Regulations	150,000	0	0	150,000	12-Oct-04
2. Ports, Waterways, and Shipping						
2305	Computerized Management Information System for Saigon Port	0	500,000	0	500,000	2-Mar-95
3. Railways						
7018	Strengthening Operations and Business Processes in Viet Nam Railways	0	0	980,000	980,000	12-Dec-07
4. Roads and Highways						
1996	Institutional Strengthening of the Ministry of Transport	1,900,000	0	0	1,900,000	29-Nov-93
3165	Project Preparation and Implementation Assistance to the Project Management Unit–My Thuan of Viet Nam	120,000	0	0	120,000	3-Feb-99
4028	Transport Services Networks for the Poor	0	0	350,000	350,000	11-Dec-02
4695	Expressway Network Development Plan	850,000	0	0	850,000	23-Nov-05
4695	Expressway Network Development Plan (Supplementary)	300,000	0	0	300,000	20-Dec-05
4795	Phu My Bridge Approach Roads	230,000	0	0	230,000	5-Jun-06
4795	Phu My Bridge Approach Roads (Supplementary)	145,000	0	0	145,000	16-Mar-07
4695	Expressway Network Development Plan (Supplementary)	600,000	0	0	600,000	30-Apr-07
4695	Expressway Network Development Plan (2nd Supplementary)	200,000	0	0	200,000	3-Dec-07
	Total ADTA	4,495,000	500,000	1,330,000	6,325,000	
	Grand Total	6,895,000	13,700,000	1,910,000	22,505,000	

ADB = Asian Development Bank, JSF = Japan Special Fund, TA = technical assistance.
Source: ADB Loan, TA, Grant and Equity Approvals database.

RETROSPECTIVE SECTOR ANALYSIS

A. Introduction

1. This appendix sets the framework for assessing Asian Development Bank (ADB) support by examining past priorities, constraints, accomplishments, and opportunities in the transport sector.

2. Decades of conflict and economic isolation took its toll on Viet Nam's transport infrastructure. Recognizing that this was a serious constraint to economic recovery, the Government began to invest in rehabilitating the country's transport infrastructure in the early 1990s. Since resuming operations in the country in 1993, major development partners have also focused their attention on rehabilitating and improving Viet Nam's transport infrastructure. Transport expenditures reached 4.5% of gross domestic product in 2002, although 35% of this was funded from outside the budget, leading to problems of indebtedness in the sector. In the coming years, transport expenditures as a proportion of gross domestic product is expected decline to about 3.5–4.0%, although in a rapidly growing economy this implies continued increases in the absolute level of transport expenditures.¹

3. The rapid growth in transport infrastructure and services over the past decade has created new demands and challenges for the transport sector. Fast economic growth has contributed to high rates of urbanization, rising traffic accident rates, new capacity constraints, and a large increase in asset preservation requirements to meet the fast expansion of transport assets. Other impediments reside in transport policy, planning, budgeting, and regulation.²

B. Roads Subsector

4. The total length of the Viet Nam road system is about 251,786 kilometers (km), of which only 32% is sealed pavement. The percentage of paved national roads is considered a useful indicator of the quality of a country's road network. About 84% of the country's 17,295 km of national roads is sealed pavements, up from 61% in 1997. Only 66% of the country's 23,137 km of provincial roads is sealed (Table A3.1). The remainder of the network comprises district, commune, and village roads. National and provincial roads provide the key links in the road network. However, in 2004, only 44.8% of the total length of national roads was reported as being in good condition. The existing national roadway system was mainly constructed with two lanes; only limited lengths near major urban areas were constructed with four lanes. Only 3.9% of the national road network has four lanes, while 66% has two or three lanes. Bridges are considered a weak link in the system—30% of the 4,100 bridges are restricted to relatively low loads, while 20% are narrow. Many sites lack bridges, necessitating the use of more than 115 ferry boats and about 1,500 fords (footnote 2).

¹ World Bank. 2006. *Infrastructure Strategy: Cross-sectoral issues*. Available: <http://siteresources.worldbank.org/INTEAPINFRASTRUCTURE/Resources/CrossSectoralIssues.pdf>

² ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh City–Long Thanh–Dau Giay Expressway Technical Assistance Project*. Manila (Loan 2374[SF]-VIE, for \$10 million, approved on 28 November).

Table A3.1: Roads System in Viet Nam

Road Classification Type	km	With Pavement						Without Pavement		
		Sealed			Unsealed			Earth	Other	%
		Asphalt	Concrete	Macadam	%	Aggregate	%			
National	17,295	7,650	344	6,447	84	2,854	16	0	0	0
Provincial	23,138	3,474	701	11,030	66	4,816	21	3,073	44	13
District	54,962	1,762	2,581	10,992	28	15,882	29	20,145	3,601	43
Urban	8,536	2,465	776	2,750	70	976	11	1,568	0	18
Commune	141,442	1,616	18,442	9,226	21	34,897	25	77,261	0	55
Special	6,414	314	160	547	16	2,593	40	2,800	0	44
Total	251,787	17,281	23,005	40,992	32	62,018	25	104,846	3,644	43

km = kilometer.

Source: Viet Nam Road Administration. 2006. Ministry of Transport, in ADB. 2007. *Ho Chi Minh City–Long Thanh–Dau Giay Expressway*. Manila.

5. Data from 16 provinces where detailed road condition surveys were carried out show that only 34% of the district road network is in good or fair condition. This is corroborated by the fact that local government expenditures on road maintenance cover no more than 20% of the requirements for an average-condition road network (footnote 2). Information from the Central Region provincial departments of transport (PDOTs) reveals that 61% of provincial and district roads under PDOTs are sealed, and 39% are gravel or earth. About half of the total road length is in bad or poor condition (footnote 5).

6. Provincial roads generally carry lower levels of traffic than national highways, although there are some heavily used sections near provincial and district centers. Traffic counts on a sample of 28 roads show average daily traffic levels of (i) less than 300 motor vehicles (mostly trucks and *cong nongs*, with a few buses and cars); (ii) 500 to 1,500 motorcycles; and (iii) 500 to 2,000 bicycles. Motorcycles and bicycles are a major means of transporting goods in rural areas.³

7. A World Bank review assessed the effectiveness of transport policies, legislation, and regulations.⁴ The study found that (i) the road sector (typically receiving 80–90% of national Government transport sector funding) fares poorly with respect to policy and policy implementation; (ii) the urban transport policy environment needs significant improvements; and (iii) implementation regulations were found to be weak, a limitation that cuts across many subsectors.

8. **Subsector Issues/Development Challenges Identified by the Country Strategy and Program.** While investment demands are still considerable, past growth has spawned several complex issues. These challenges, identified by ADB's CSP for 2007–2010, include the need to (i) improve resource utilization, investment planning, physical planning, and operational efficiency (transport management); (ii) explore and exploit new and innovative solutions for financing sustainable transport infrastructure; and (iii) recognize the importance of urban transport in addressing rapid urbanization and the accompanying congestion and environmental and social effects.

9. **Institutional Arrangements.** The administration of the road sector is complex, with some agencies responsible for financing and implementation, and other agencies responsible

³ ADB. 2005. *Central Region Transport Networks Improvement Sector*. Manila.

⁴ Meyrick and Associates. 2006. *Viet Nam Multimodal Transport Regulatory Review*. Washington, DC: World Bank, quoted in World Bank. 2006. *Transport Strategy –Transition, Reform, and Sustainable Management*. Washington, DC.

for investment and maintenance. For national roads, investment finance is approved by the Ministry of Planning and Investment; implementation is the responsibility of the project management units of the Ministry of Transport (MOT); and maintenance is undertaken by the Viet Nam Road Administration (VRA), with funds channeled through the Ministry of Finance. MOT's Planning and Investment Department undertakes overall policy coordination, programming, and budgeting, and sets investment priorities in the transport sector with support from its Center for Statistics and several other institutions. Figure A3.1 sets out the current Government organizational structure for transport. It is evident from the diagram that responsibilities are not altogether clear (for example, project management unit 1 appears to report directly to MOT, with an undefined connection to the VRA). Figure A3.2 shows the roles and responsibilities within the Government for the administration of official development assistance for transport.

Figure A3.1: Government Organization Structure for Transport

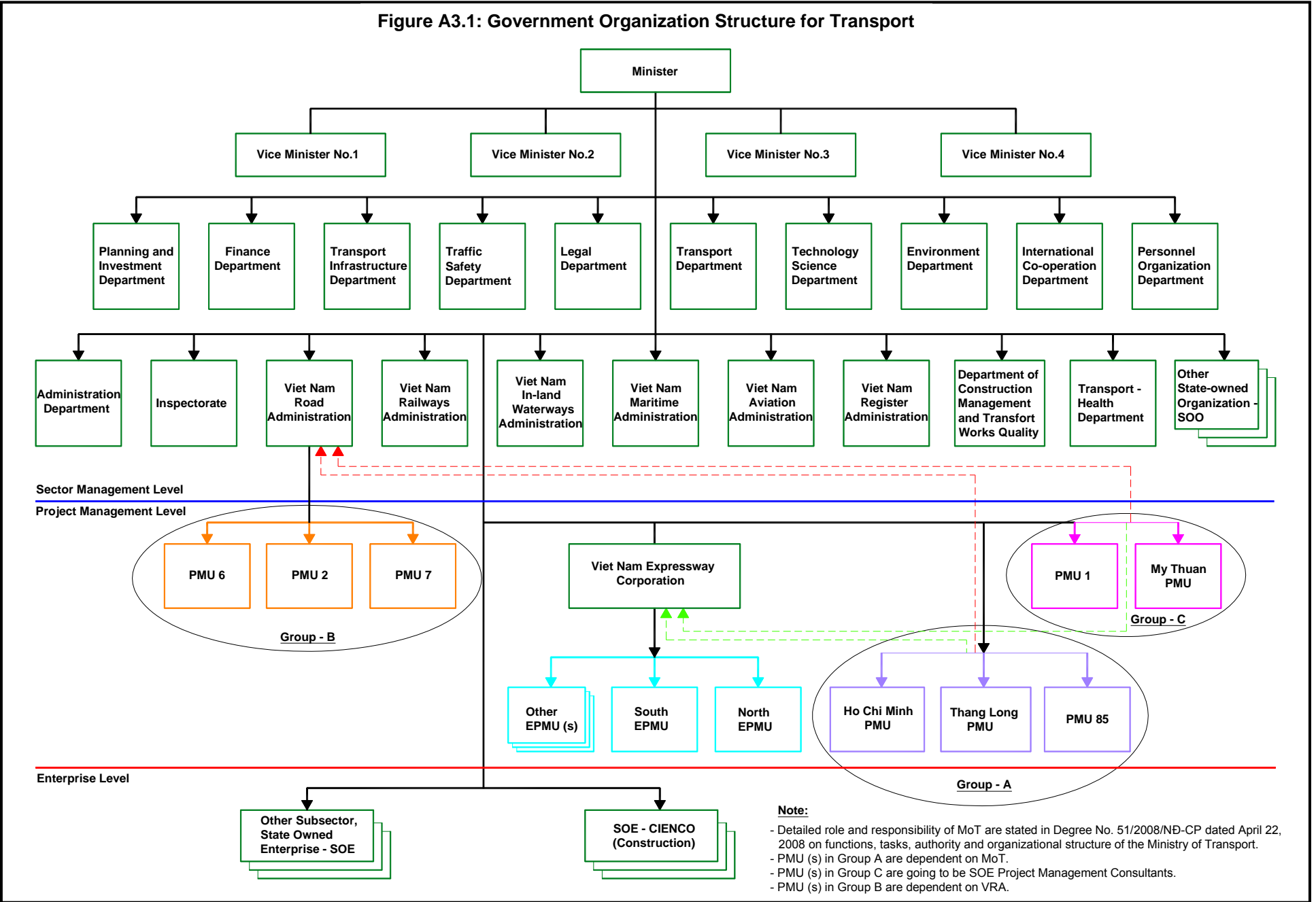
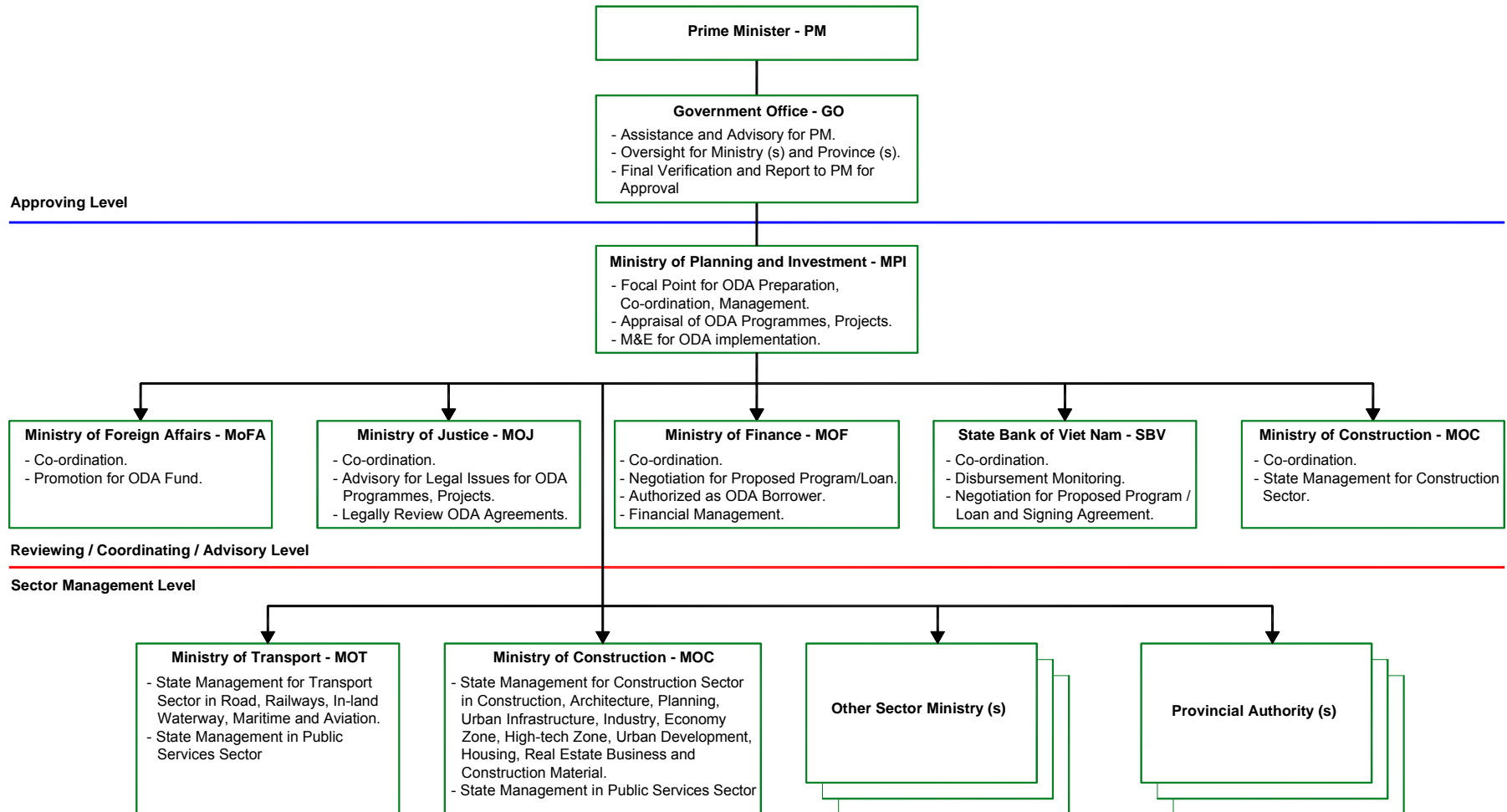


Figure A3.2: Roles and Responsibilities in Transport ODA Administration



Note:

- * Key tasks of relevant Bodies are reported only in the Diagram. Detailed role and responsibility are stated in relevant decrees as followings:
- Decree No. 131/2006/ND-CP dated November 9, 2006 of Government issuing the regulation on ODA Management and Use.
- Decree No. 33/2008/ND-CP dated March 19, 2008 on functions, tasks, authority and organizational structure of the Government Office.
- Decree No. 116/2008/ND-CP dated November 17, 2008 on functions, tasks, authority and organizational structure of the Ministry of Planning and Investment.
- Decree No. 15/2008/ND-CP dated February 4, 2008 on functions, tasks, authority and organizational structure of the Ministry of Foreign Affairs.
- Decree No. 93/2008/ND-CP dated August 22, 2008 on functions, tasks, authority and organizational structure of the Ministry of Justice.
- Decree No. 77/2003/ND-CP dated July 1, 2003 on functions, tasks, authority and organizational structure of the Ministry of Finance.
- Decree No. 96/2008/ND-CP dated August 26, 2008 on functions, tasks, authority and organizational structure of the State Bank of Viet Nam.
- Decree No. 17/2008/ND-CP dated February 4, 2008 on functions, tasks, authority and organizational structure of the Ministry of Construction.
- Decree No. 51/2008/ND-CP dated April 22, 2008 on functions, tasks, authority and organizational structure of the Ministry of Transport.

10. For local roads, the complexity of institutional arrangements is even greater. At the provincial and district levels, planning and programming for transport sector investments and operations are vested with the PDOTs, which are responsible to their respective provincial people's committees. The PDOTs have no direct responsibility to MOT, but they have links to MOT to carry out certain works.

11. MOT is being restructured to differentiate between regulation and infrastructure development and operations. Four administrations within MOT—VRA, Viet Nam Railways, Viet Nam Inland Waterway Administration, and Viet Nam National Maritime Bureau (VINAMARINE)—are responsible for roads, railways, inland waterways, and ports, respectively. In the roads subsector, the aim of the restructuring is to (i) strengthen the VRA, the agency responsible for the road sector, by issuing new decrees and regulations; (ii) increase maintenance funding and introduce modern road maintenance management systems; (iii) strengthen planning capacity and build a modern road asset database; and (iv) improve road safety. In 2004, MOT established the Viet Nam Expressway Corporation as a state-owned enterprise (SOE) financially independent of MOT, and responsible for implementation of expressway projects and development of the expressway network, to be funded by revenues from expressway tolls. The Viet Nam Expressway Corporation plays a critical role in investments and financial management, construction management, and operation and maintenance of expressway projects. However, to date it has little experience in project management, financial management, procurement, environmental management, and land acquisition and resettlement.⁵

12. Construction of national projects is typically carried out by SOEs attached to MOT and provincial governments as well as private sector companies. MOT has more than 200 SOEs, most of which are grouped under 12 corporations (including the five civil engineering construction corporations). The corporations act as holding companies in an administrative sense and do not own their member SOEs. The primary activity of more than 100 of these SOEs is construction. While in principle SOEs are independent business entities, in practice they are typically assigned tasks by MOT. Local-level projects are carried out by provincial and district SOEs and private companies. All companies have to compete for their assignments under general bidding (or limited bidding) guidelines. It is believed that SOEs are awarded the majority of the tasks and often subcontract to private firms (footnote 2).

13. At present, about 1,050 enterprises are registered as road transport businesses, of which 16 are SOEs, 233 are limited liability companies, 350 are private companies, 450 are joint stock companies, and a few are foreign invested companies. Most road transport companies are of small and medium scale, with about 50 vehicles per company on average. State-owned road transport enterprises have faced many difficulties, such as vehicle shortages and poor performance. Numerous individual household businesses also operate passenger and cargo transport services, but they are difficult to regulate.

14. At the provincial level, most road and bridge maintenance companies are SOEs that are contracted for maintenance planning and execution by PDOTs. The capacity of these SOEs varies. Some are limited to carrying out small-scale works, while others are capable of undertaking large, complex projects. The provincial people's committees are now converting many of their construction, consulting, and transport SOEs into joint stock companies with different degrees of state shareholdings (footnote 9).

⁵ ADB. 2007. *Greater Mekong Subregion (GMS): Kunming–Hai Phong Transport Corridor: Noi Bai–Lao Cai Highway Project*. Manila.

15. SOE reform can be approached in several ways. One key issue is that the conversion of an SOE to a joint stock company does not mean that the SOE has been privatized. Rather, it is the first step toward privatization where it will produce its own accounts and have its own management team. For example, many construction companies could be separated from MOT, given revised governance structures and stronger incentives for commercial performance. Going a step further, these sorts of enterprises could be exposed to stronger competition to provide ongoing incentives for efficiency improvements (footnote 7).

16. **Road Maintenance.** The budget allocations to undertake road maintenance are relatively small. For example, the cost of routine and periodic maintenance in the Vietnamese section of the Southern Coastal Corridor averages \$820 per km for provincial roads and \$1,320 per km for national roads. However, expenditure on road maintenance has been increasing. For example, the budget allocation for maintenance of national roads increased from D592 billion in 2002 to D946 billion in 2004 (still only 50% of the required amount estimated by the VRA). National road maintenance is being supported by the World Bank-funded Road Network Improvement Project, which has developed a standardized road maintenance system for application in both national and provincial roads throughout Viet Nam. The Road Network Improvement Project includes a component for strengthening road maintenance and finance that will address improving road maintenance financing and management; and will prepare and implement a framework to improve cost recovery and planning, budgeting, and monitoring of maintenance on road assets.⁶

17. PDOTs receive budget allocations from the provincial people's committees for the development and maintenance of provincial and district roads under their jurisdiction, and from MOT for the portions of the national highway they operate and maintain on behalf of the VRA. The information received from the PDOTs shows the amount allocated to routine and periodic maintenance of provincial roads is \$700 per km. Other PDOT sources reported that the actual expenditure per km is approximately 50–60% of this amount, and is only 50% of the amount required. By international standards, this level of expenditure is too low to maintain roads at a reasonable standard (footnote 9).

18. Maintenance is implemented primarily through SOEs. The focus of MOT's SOE reform has so far been limited to the equitization of the smaller enterprises, but they have plans to equitize some of the SOEs involved in highway maintenance. Insufficient funds are allocated to maintenance, monitoring of fund allocation is weak, and no reliable basis exists for forecasting future funds. Despite the various TA programs to address major road maintenance issues, a stable maintenance system has yet to be established. The priority for available funds has been given to emergency and routine maintenance works, while periodic maintenance has been underfunded.⁷

19. Additional budget allocations for provincial road maintenance are urgently needed. The PDOTs do not receive sufficient budget allocations from the provincial people's committees to carry out routine maintenance to keep the provincial road network in an acceptable condition. The result is that many neglected roads deteriorate, then require more costly rehabilitation works to fix. The problem is compounded by a lack of road maintenance management processes to enable PDOTs to monitor road conditions, quantify work requirements and costs, and substantiate requests for increased maintenance budgets. A combination of design standards that are inadequate to support traffic loads, weak quality management during

⁶ ADB. 2007. *Greater Mekong Subregion (GMS): Southern Coastal Corridor (Regional)*. Manila.

⁷ Nogales, A. 2004. *Viet Nam: Transport Sector Brief*. East Asia and Pacific Region Transport Sector Unit, World Bank.

construction, inadequate routine maintenance, and a failure to regulate truck axle loads (footnote 9) leads many roads to deteriorate. The fragmentation of responsibility for roads generates confusion with regard to road planning, inefficient allocation of funding, inconsistent technical standards, and limited access to off-budget finance.

20. **Other Issues.** Road safety is a well documented problem for which a concrete program of improvements has been defined but not yet fully implemented. Road accidents are caused by road users ignoring traffic rules, weak enforcement of traffic regulations, inadequate vehicle inspection measures, inadequate drivers license requirements and drivers education programs, rapid growth in the number of motor vehicles (particularly motorcycles), and poor road infrastructure. Also, the acquisition of land for infrastructure development is getting more difficult as land prices increase and enforcement over encroachment is insufficient. The World Bank found that the current provision of resettlement areas and existing environmental procedures need substantial improvement (footnote 13).

C. Railway Subsector

21. The railway network consists of seven lines with a total length of 2,632 km, linking the main population, cultural, agricultural, and industrial centers (Table A3.2). All lines are single track, mostly meter (m) gauge, with a few standard gauge and double gauge tracks close to the Chinese border. There are more than 1,800 bridges (total length 57,044 m); 39 tunnels (11,513 m); and 281 stations. The main trunk line of 1,726 km runs from north to south, linking Da Nang, Ha Noi, Ho Chi Minh, Nha Trang, Thanh Hoa, Vinh, and Hue cities. Four railway routes and two branches in the northern part of the network connect Ha Noi with Cai, Hai Phong (and Hai Phong port), Lang Son, Lao Quan Trieu, Mai Pha, and Pom Han; the other route links Kep, Uong Bi, and the developing deep seaport of Cai Lan. The main lines have a maximum speed limit of 70 km/hour (km/h). Many bridges in the network were damaged during the war and have safety issues requiring trains to slow to 30 km/h or even 5 km/h. Some railway tunnels let in water because of poor drainage and unstable tunnel linings. As a result, trains have to reduce speeds to as low as 15 km/h. Overall, the physical condition of the railway infrastructure varies from poor to less than satisfactory. Much of the network needs to be rehabilitated and upgraded to meet the demand for efficient and cost effective rail transport.

Table A3.2: Viet Nam Railway Network

Main Routes	Length (km)	Track Gauge
Ha Noi–Ho Chi Minh	1,726	1,000 mm
Ha Noi–Hai Phong	102	1,000 mm
Ha Noi–Lao Cai	296	1,000 mm
Ha Noi–Dong Dang	162	dual gauge (1,435 and 1,000 mm)
Ha Noi–Quan Trieu	75	dual gauge (1,435 and 1,000 mm)
Kep–Uong Bi–Ha Long	106	1,435 mm
Kep–Luu Xa	57	1,435 mm

km = kilometer, mm = millimeter.

Source: Viet Nam Railways Corporation.

22. Compared with other modes of transportation, railways play a less significant role. Railway market share remained steady between 1999 and 2005 at 3.6% for goods and 8.8% for passenger transport (Table A3.3). The governance of the railways subsector has not changed at the same pace as other transport subsectors in terms of private sector participation and international funding.

Table A3.3: Domestic Transportation Volume, 1999–2005

Mode	1999				2003				2005				Annual Income in Ton Km (%)
	1,000 tons	%	Million Km	%	1,000 tons	%	Million Km	%	1,000 tons	%	Million Km	%	
Goods Transport													
Railways	5,146	2.7	1,445	3.6	8,385	3.2	2,725	4.5	8,838	2.7	2,948	3.6	13
Roads	132,137	69.5	7,160	17.8	175,856	67.3	9,403	15.4	211,556	65.2	11,262	13.9	8
Waterways	39,887	21.0	3,968	9.8	55,258	21.1	5,141	8.4	69,933	21.6	4,785	5.9	3
Coastal	13,006	6.8	27,620	68.5	21,811	8.3	43,513	71.3	33,798	10.4	61,872	76.3	14
Aviation	42	0.0	106	0.3	90	0.1	211	0.4	104	0.0	229	0.3	14
Total	190,219	100.0	40,295	100.0	261,401	100.0	60,992	100.0	324,229	100.0	81,096	100.0	12

Passenger Transport	Million Passenger		Million Pass. Km		Million Passenger		Million Pass. Km		Million Passenger		Million Pass. Km		Annual Income in Pass. Km (%)
	Passenger	%	Pass. Km	%	Passenger	%	Pass. Km	%	Passenger	%	Pass. Km	%	
Railways	9.3	1.3	2,722	8.8	11.6	1.0	4,069	9.2	12.8	4,582	8.6	8.6	—
Roads	588.4	80.9	22,053	71.1	926.2	83.7	29,181	66.6	1,076.5	34,436	64.6	64.6	8
Waterways	125.7	17.3	2,110	6.8	161.7	14.6	3,282	7.5	169.3	3,420	6.4	6.4	8
Coastal	2.7	0.4	4,042	13.0	4.5	0.4	7,112	16.2	6.3	10,670	20.0	20.0	17
Aviation	1.3	0.1	80	0.3	2.2	0.3	142	0.5	2.5	189	0.4	0.4	15
Total	727.4	100.0	31,007	100.0	1,106.2	100.0	43,786	100.0	1,267.4	53,297	100.0	100.0	10

km = kilometer.

Source: World Bank. 2006. *Transport Strategy: Transition Reform and Sustainable Management*. Washington, DC.

23. Viet Nam's eight lines serve high density passenger corridors. Taking freight and passenger traffic together, traffic density is about 2.3 million traffic units per route-km per annum, which is relatively low compared with other countries in the region. The average passenger train load in Viet Nam is around 370 passengers, which is relatively high. However, the average freight load of 225 tons is low. Factors contributing to low freight loads include a lack of concentrated flows of bulk raw materials, relatively short transit distances, low axle-weight infrastructure, short crossing loops, and suboptimal freight operating plans. The relatively low quality of service and high transportation costs have also contributed to the weak role of railways in the transport sector (footnote 2).

24. Railways play an important role in providing affordable, reliable, and safe transport of people and goods. However, the development of railway infrastructure in Viet Nam has been relatively slow. Most of the existing railways were originally constructed more than 100 years ago with old technologies, and were heavily damaged in the war. Communications are outdated, and only 40% of railway stations are supplied with semiautomatic signals. The quality of both rails and bridges is poor, and many lines do not meet modern technical standards. There has been little investment in upgrading railways. What work has been done has mainly focused on strengthening bridges and preventing the network from deteriorating further. Consequently, average train operating speeds are low at 40 km/h for passenger trains and 22 km/h for freight trains.

25. **Subsector Issues and Development Challenges Identified.** Past problems in the railways subsector have arisen from a history of central government ownership. There has been insufficient attention paid to economic efficiency, quality of services, or sustainability of operations. Over the years the Government has often had to subsidize railways. No efforts have been made to upgrade the facilities or improve the quality of service; as a result, the quality and standards of railway technology, equipment, and system capacity are insufficient to meet the demands of a rapidly growing economy (footnote 6). The Government is keen to reform the subsector to make railway services more competitive to address the needs of an expanding population and spur economic growth. This can only be achieved through strategic investments in infrastructure and facilities. However, limited public funding is available. An enabling environment needs to be created to make private sector participation more attractive and to infuse modern management and business practices into the railways. It should be noted that other transport modes, particularly road transport, have benefited significantly from private sector participation (footnote 6).

26. **Institutional Arrangements.** The Viet Nam Railways Corporation (VRC) is the sole supplier of rail services in Viet Nam. Following corporatization, VRC's internal business was restructured into four main business groups: two passenger train operating entities (North and South), a freight train operating company, and a looser grouping of regional infrastructure administrations. The train operating entities are quasi-independent management and accounting entities. The VRA remains responsible for planning all new construction, securing resources for maintenance, and taking other measures to improve the sector. VRC pays 10% of its gross revenues to the VRA as a track access charge. These funds are generally used toward infrastructure maintenance.

27. A new railway law was adopted in May 2005 and became effective in January 2006.⁸ It provides a legal framework for investment and rules on railway safety. It contains free-market-style provisions designed to attract private investment in railway infrastructure and transportation services. It was anticipated that the law would encourage domestic and foreign investment in the railways subsector, but significant results have yet to be achieved.

28. **Other Issues.** VRC is mainly driven by production concerns, and generally has not been successful in finding new markets. With much equipment unserviceable, the level of utilization of assets and the track is low, as is staff productivity. A huge backlog of infrastructure maintenance projects has built up as available funds have been used to sustain short-term operations. Past neglect has increased the resources required to repair tracks, bridges, and tunnels now. Most of the track needs replacing or major rehabilitation. In the absence of a good management information system, management cannot assess the costs and revenues associated with carrying different types and levels of traffic, cannot introduce new arrangements for utilizing assets, and cannot forecast the financial effects of alternative business strategies. Also, the financial agreements and performance agreements between VRC and the Government are inadequate. The infrastructure payment made by Government is not directly related to variable maintenance costs or cost variations on different railway lines. There are no long-term agreements on investment, subsidies, or operating and financial performance (footnote 13).

29. ADB is currently becoming involved in urban transport development, with feasibility studies under way for the construction of mass rapid transit systems in both Ha Noi and Ho Chi Minh City (footnote 3).

D. Ports Subsector

30. Viet Nam has some 80 seaports totaling 22,000 m of wharfs, 2.2 million square meters of quays, and 1 million square meters of docks. Most ports are small and possess obsolete facilities and poor support services.⁹ They were constructed several decades ago and are unable to cope with the demands of modern transport. Saigon Port, which is more than 130 years old, has had the highest national per annum throughput and productivity for many years. It is the major port in the south, receiving cargo and containers from all industrial parks in the southern region. Being in the middle of the busiest city means ground transportation to and from the port has to deal with traffic congestion similar to that found in other big Asian cities. Expansion of the port is not an option despite the high throughput.

⁸ Viet Nam New Railway Law No. 35/2005/QH11. 2005.

⁹ Available: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIET_NAMEXTN/0,,contentMDK:20458737~isCURL:Y~menuPK:387571~pagePK:2865066~piPK:2865079~theSitePK:387565,00.html

31. Ha Noi and Hai Phong are the two main growth centers in northern Viet Nam. In recent years, provinces along the Ha Noi–Hai Phong transport corridor have demonstrated dynamic economic performance. With the improvement of NH5 and the expansion of Hai Phong Port, the transport corridor has reinforced the link between the two growth centers and enhanced the access of Ha Noi to global markets by improving land and sea transport.¹⁰ There have been some foreign investments in the port sector. For example, the Viet Nam International Container Terminal in Ho Chi Minh City is 90% foreign owned, and the Interflour grain port (with capacity to handle Panamax vessels) in Vung Tau is 100% foreign owned.

32. While productivity is hampered by port conditions, progress is being made. Port fees have been reduced and are now competitive with those of neighboring countries. Customs services have improved, paperwork has been reduced, and information technology systems are being introduced. The main constraint in Ho Chi Minh City is now on the land side. This is due to road congestion and a ban on trucks in the city during daylight hours, which increases operating costs. Ocean freight costs to and from Viet Nam are high because traffic volumes are still relatively low, and because transshipment through hub ports (such as Singapore and Hong Kong) is still needed because Viet Nam ports tend to be estuarine and shallow. Many Viet Nam ports require channel dredging. MOT continues to develop ports in the northern and southern economic zones, including Cai Lan and Cai Mep, to provide access to larger ships (footnote 8). The Government is faced with the challenge of improving its ports to withstand competition from other ports in the region. Reform measures such as developing an integrated transport network and gateway port will have to be put in place to attract foreign investors and traders.

33. **Institutional Arrangements.** Viet Nam's ports are under the jurisdiction of MOT through the VINAMARINE. A few ports such as Nghe Tinh, Nha Trang, and Quy Nhon are managed directly by VINAMARINE while most of the ports are owned and operated by the State. The largest ports of Viet Nam—namely Can Tho, Da Nang, Hai Phong, and Ho Chi Minh City—are managed by Viet Nam National Shipping Lines (VINALINES) and other SOEs under local governments and ministries, rather than by MOT. The main gateway ports suffer from shallow water depth, poor infrastructure, and inadequate cargo handling equipment. Despite these constraints, cargo traffic has been increasing steadily, and port productivity increased by more than 50% between 1995 and 2000 (footnote 17).

34. Local governments manage about 20 ports, and several national- or local-level SOEs operate specialized ports. The main ports are Hai Phong in the north and Saigon in the south, but both are estuarine ports that are well removed from the sea (Hai Phong is 30 km from the sea, while Saigon is 90 km from the sea). Access to these ports is therefore limited to smaller ships. Annual port throughput almost doubled between 1998 and 2003, from 56 million tons to 114 million tons. Ports in the southern Focal Economic Zone still account for two thirds of total throughput.

35. Although port operations are divided among five separate companies, they are all part of VINALINES, which also operates seven shipping companies that account for the majority of the national fleet. Port charges pertaining to vessels are set by the Ministry of Finance and most of them do not vary from one region or port to another. Cargo handling charges are set by port operators, service providers, or by negotiation. While foreign ownership of ports is possible, there are restrictions on the level of port and shipping services foreign enterprises can provide. Joint ventures can offer shipping services provided the foreign entities' share in the enterprise does not exceed 49% (footnote 2). The exception is ship agency services, which are not open to any degree of foreign participation.

¹⁰ GRIPS Development Forum. 2003. *Linking Economic Growth and Poverty Reduction – Large-Scale Infrastructure in the Context of Viet Nam's CPRGS*. Japan.

36. **Subsector Issues.** Although still low compared with the more modern ports of the region, port efficiency has increased and port costs have declined. According to VINALINES, throughput on container berths ranges from 20 to 25 units per hour in Saigon Port to 30 units per hour in the new port of Cai Lan in Quang Ninh Province. General cargo throughput is 1,500 tons/gang/day. These figures compare favorably with performance in other ports of the region. An international comparison reveals that the tariff at Saigon Port is quite competitive with other feeder ports in the Association of Southeast Asian Nations and the People's Republic of China (footnote 2). The limited size of Vietnamese ports means that goods transported from Viet Nam to major international markets such as the United States and the European Union have to be transshipped at larger ports such as Hong Kong and Singapore. Transshipment results in significant added handling costs—and ultimately increased product costs. This can put a dent in Viet Nam's competitive advantage vis-à-vis the People's Republic of China and Thailand in terms of lower labor costs. A comparison of shipping costs for the same item from various seaports to Los Angeles, United States, shows that shipping from Viet Nam is consistently more expensive than shipping from the region's bigger ports. It is 28% more expensive to ship a 40-foot container from Ho Chi Minh City than it is to ship the same container from Hong Kong. Shipping the container from Ho Chi Minh City is 16% more expensive than shipping it from Shanghai, Ningbo, or Shenzhen—a significant difference in the context of an export-driven economy.¹¹

37. Port projects face the common problem of local authorities competing for government funds and attention. The limited availability of funds has resulted in scattered and undersized ports in several provinces. Viet Nam still lacks an international-standard, large-capacity port that could facilitate the country's growing economy.

38. Limited competition exists in the industry as most traffic is carried by members of VINALINES. Vietnamese ship managers lack the experience to compete with foreign operators. Consideration is being given to the development of a deep sea port to serve Ho Chi Minh City, and the development of a transshipment hub. At present, the introduction of competition into the ports subsector is not on the agenda but it could be possible to concession a major port on a pilot basis. The presence of alternative ports would serve as a safeguard in the case of failure. The introduction of a strong competitor would also stimulate improvements in regional port performance (footnote 7).

39. **Other Issues.** The legal framework is incomplete. VINAMARINE has insufficient planning authority. The regulations concerning ship inspections and compensation claims for oil spills need substantive improvement. Virtually no regulations or guidelines exist for infrastructure maintenance, and infrastructure management is inadequate. Ocean port services are also inadequate, ships spend excessive times in ports, and often cargo is lost or damaged. Port charges are not directly related to costs incurred for port services. Inefficient handling methods and a lack of modern equipment result in long loading and unloading times. Most of the shipping fleet is obsolete and in poor condition and cannot operate efficiently. Inadequate dredging and draft limitations restrict the size of vessels and times of sailings, deterring investment in modern vessels (footnote 13).

¹¹ Runckel. 2006. *Ports in Viet Nam, Stunting amid Economic Development*. Available: www.businessinasia.com

SUMMARY OF ADB TRANSPORT STRATEGY AND FOCUS SINCE 1993

IOS (1993–1995)	COS 1995	CAP Highlights (1996–2000)
<p>IOS supported four main activities: (i) rehabilitation and development of physical infrastructure; (ii) further macroeconomic and sector-based policy reform and institutional strengthening to improve public sector efficiency and promote private sector development; (iii) capacity development for domestic resource mobilization through further financial sector reforms and promotion of cost recovery in public services; and (iv) promotion of social sector activities, human resources development, technology transfer, and environmental protection.</p> <p>Transport</p> <p>1. Assistance focused on infrastructure rehabilitation in transport (roads and ports); water (irrigation, flood protection, and water supply); and power and agriculture policy reform.</p> <p>2. The initial focus of external assistance, in line with Government priorities, was on national highways, inland waterways (Mekong River Delta and the Red River) and ports (Saigon Port, Hai Phong Port, and Da Nang Port).</p>	<p>Strategy proposed was more diffused. Achieving macroeconomic stability and undertaking infrastructure rehabilitation became less pressing. Other developmental concerns, particularly those reflected in ADB's mid-1990 MTSF, began to emerge. COS listed eight main development needs and/or concerns, with three general strategic objectives—efficient economic growth, poverty reduction, and environmentally sound development. The needs and/or concerns were a) transition to a more market-oriented economy, b) maintenance of stable macroeconomic climate, c) poverty reduction, d) regional balance, e) human development/quality of the labor force, f) increased savings and investment, g) infrastructure development, and h) environmental management.</p> <p>Transport</p> <p>1. Strengthening links between urban and rural areas, and between Viet Nam and its neighboring countries, was an important element. ADB envisaged concentrating its project interventions on transport corridors and related development zones.</p> <p>2. Investment for the rehabilitation and upgrading of transport was considered a major priority, focusing on the development of transport corridors to facilitate trade and other economic links between the growth zones and their surrounding hinterlands.</p> <p>3. Roads subsector remained the principal focus of transport investment. Improvement in rural transport was also envisioned.</p>	<p>1996 CAP (1997–1999) Included assessments for 13 subsectors (agriculture, forestry and natural resources, ports, railways, roads, energy, urban development, water and sanitation, education, health and population, industries, finance, and private sector development).</p> <p>1997 CAP (1998–2000) Ports and railways were dropped and urban development and water supply and sanitation were presented as one subsector.</p> <p>1998 CAP (1999–2001) Starting with 1998 CAP, increased attention was given to crosscutting issues, and presentation of sector strategies, as previously defined, was now much reduced.</p> <p>Transport</p> <p>1. Major focus of operations in the sector was on providing policy-related and capacity building support, especially in the roads subsector. This support was to be directed at the Ministry of Transport and Communications and, in particular, at the newly formed Viet Nam National Road Administration and for the development of institutions and policies required to manage and maintain the road network system.</p> <p>2. In the short run, assistance was to be extended through project loans for construction supervision and management to the state-sector technical bureaus and construction companies.</p> <p>3. Over the medium term, ADB with other major aid agencies planned to engage the Government in policy discussions on the need to corporatize state construction companies.</p> <p>4. ADB's future interventions for road projects were planned to involve primarily the rehabilitation and development of provincial roads. Possibilities for assisting development of other modes of transport, such as inland waterways, were to be explored with the Government.</p>

IOS (1993–1995)	COS 1995	CAP Highlights (1996–2000)
		<p>5. In terms of the investment program, ADB focused on the rehabilitation and upgrading of Highway 1, the country's principal north–south artery, which was assigned very high priority by the Government, through the first, second, and third road improvement projects. ADB's program also included financing the GMS: Phnom Penh–Ho Chi Minh City Road Improvement Project.</p> <p>1999 CAP (2000–2002)</p> <p>Transport</p> <p>1. Major focus of ADB operations in the transport sector was in the roads subsector and generally followed the thrusts and investment program in the previous CAP.</p> <p>2. A second GMS: East–West Corridor Project was planned in 1999. Future interventions include developing regional links with other GMS countries through projects such as the Kunming–Hai Phong Corridor Project.</p> <p>2000 CAP (2001–2003)</p> <p>Transport</p> <p>1. Relevant issues included ensuring adequate operations and maintenance budgets, promoting private sector involvement in construction and maintenance, and prioritizing and economically justifying planned network expansions.</p> <p>2. The Country Program for 2001–2003 was oriented toward poverty reduction. To support this emphasis, rural (mainly provincial) roads in the northern part of the country were targeted for improvements under the Provincial Roads Improvement Project scheduled in 2001.</p> <p>3. Afterwards, the focus was expected to shift to the even poorer Central Region. GMS activity during the period focused on the Kunming–Ha Noi–Hai Phong Transport Corridor, with possible improvements to roads, railways, and inland waterways. A cross-border agreement was planned to ensure full realization of the benefits of improved efficiency and economic integration.</p>

CSPU (2002–2004)	CSP (2002–2004)	CSPU Highlights (2002–2005)	CSIP (2006–2010)	CSP (2007–2010)
<p>This update represented a transition from the previous COS to the CSP being designed. Focus on growth with equity was retained, but more emphasis was given to supporting the rural–urban transition. The sector focus was narrowed, with increased targeting of the poor in the Central Region of Viet Nam.</p> <p>Transport The proposed geographic focus on the Central Region was to be carried out at two levels: (i) community-based livelihood projects focusing on a small number of provinces; and (ii) sector projects designed with a regional perspective (in road transport, water resource management, infrastructure, power transmission/ distribution, and urban development).</p>	<p>Key areas for ADB assistance were defined around the shared strategic priorities of sustainable growth, inclusive social development, and good governance. In addition, it was envisioned that ADB would support more balanced regional development by focusing on the relatively impoverished Central Region.</p> <p>Physical and social infrastructure with a regional scope was expected to complement community-based development. Priority sectors included road transport, water resource management infrastructure, power transmission/ distribution, and urban development.</p> <p>Transport 1. In the road sector, three types of investment were to be considered: (i) roads that would enable district towns to connect to the hinterlands, to each other, and to the larger provincial towns; (ii) roads that would improve access to coastal markets and ports, subject to analysis of the impact on migration patterns and natural resources; and (iii) selective bypass construction in some of the</p>	<p>2002 CSPU (2003–2005) ADB offered to help the Government support the Cambodia–Lao PDR–Viet Nam development triangle within the framework of the GMS. Program.</p> <p>Transport 1. The Government requested that ADB consider funding some of the priority projects resulting from the Cambodia–Lao PDR–Viet Nam development triangle initiative. Some of the required investment could be included under national projects in the road and power sector.</p> <p>2. A second priority subregional transport project in the southern provinces, linking Viet Nam and Cambodia, was proposed.</p> <p>2003 CSPU (2004–2006) Initial consultations with the Government highlighted the potential for OCR lending in transport (particularly airports).</p> <p>2004 CSPU (2005–2006) Preliminary assessment of OCR lending potential focused on the transport, power, and private sectors.</p> <p>Transport</p>	<p>The new CSP will support the Government’s socioeconomic development objectives under its new SEDP. The overall goal would be to contribute rapid but sustainable economic growth, poverty reduction, and environmental sustainability. The immediate purpose would be to assist the Government in meeting its development challenges and investment requirements, as outlined in the new SEDP. While ADB may not be able to assist the Government in meeting all of its challenges and investment requirements, it will follow a selective approach, with a focus on addressing physical infrastructure bottlenecks, social development and poverty reduction, natural resource management, livelihood improvement, and improving governance.</p> <p>Investment requirements for viable infrastructure projects were expected to outstrip ODA and the Government’s own domestic resources, requiring new sources of financing.</p> <p>ADB will continue to support investments in power, transport</p>	<p>ADB support aims to help the Government develop the foundations for increased private sector investment and employment, including assistance to (i) develop physical infrastructure, (ii) improve the business-enabling environment through regulatory reforms, (iii) strengthen financial and related market institutions, and (iv) develop human resources.</p> <p>Through its private and public sector operations, ADB will help the Government remove transport, power, and urban infrastructure bottlenecks.</p> <p>Transport</p> <p>Viet Nam has a relatively inefficient and expensive transport system. ADB aims to help the Government improve the transport investment program and sector efficiency and reduce transport costs. This will include developing sections of priority GMS transport corridors. Potential opportunities for ADB’s private sector operations will include the development of</p>

CSPU (2002–2004)	CSP (2002–2004)	CSPU Highlights (2002–2005)	CSIP (2006–2010)	CSP (2007–2010)
	<p>provincial and district towns on the route of National Road 1 to reduce safety and environmental hazards associated with increasing traffic volumes.</p>	<p>Initial emphasis was placed on highways that can improve national and subregional connectivity.</p> <p>2005 CSPU (2006–2008) In light of the renewed emphasis on larger infrastructure and poverty reduction and the Government's request for OCR support, the lending and TA pipeline in the transport and power sectors were strengthened. OCR operations were planned for large transport and power projects.</p>	<p>(roads, railways, mass transit systems), and urban development. ADB will make available OCR resources for revenue generating infrastructure projects and also leverage private sector investment and expertise through public–private partnerships.</p> <p>ADB will assist the Government in addressing transport related infrastructure bottlenecks. These would include lengthening national highways to 110,000 km. Provincial road improvement and rail and road alignments in north–south transport corridors will promote GMS connectivity.</p> <p>Highways and expressways can generate revenue and be financially sustainable. They also have the potential to attract private sector interest (a road map for the transport was under preparation).</p>	<p>an urban mass-transit system using a public–private partnership framework.</p> <p>As the Ministry of Transport and the Viet Nam Road Administration require substantial investments and institutional support over the next 10 years, ADB aims to help strengthen institutional capacity. Transport projects will include components to help the Government address governance, environment, social, and road safety issues.</p> <p>In line with the SEDP, ADB will pursue a three-pronged investment program in the sector, including institutional capacity-building elements where necessary. The first prong supports investment projects to reduce critical transport bottlenecks hampering economic growth in the main development centers. Projects under this component will include investments in urban transport, priority expressways, and priority railways to facilitate the safe and efficient movement of goods and people among</p>

CSPU (2002–2004)	CSP (2002–2004)	CSPU Highlights (2002–2005)	CSIP (2006–2010)	CSP (2007–2010)
				<p>major centers of economic activity. These revenue-generating projects could be funded through a blend of ADF and OCR, or straight OCR loans. Private sector participation will be encouraged as an important option to help overcome resource constraints.</p> <p>The second component addresses social equity, using ADF funds to develop provincial and district roads. This supports the SEDP objective of developing a regionally integrated infrastructure system.</p> <p>The third component complements the first two by bringing regional dimensions to the development of the national transport network in terms of connectivity, including multimodal transport modes and competitiveness (e.g., the Kunming–Hai Phong transport corridor).</p> <p>ADB will support private sector operations in areas such as (i) clean, efficient energy, power generation, and transmission; (ii) transport, including urban</p>

CSPU (2002–2004)	CSP (2002–2004)	CSPU Highlights (2002–2005)	CSIP (2006–2010)	CSP (2007–2010)
				mass-transit systems; and (iii) ports. Privately invested projects and public–private partnerships could combine synergies from ADB’s public and private sector operations.

ADB = Asian Development Bank, CAP = country assistance plan, COS = country operational strategy, CSIP = country strategy and program initiating paper, CSP = country strategy and program, CSPU = country strategy and program update, GMS = Greater Mekong Subregion, IOS = interim operational strategy, Lao PDR = Lao People's Democratic Republic, OCR = ordinary capital resources, ODA = official development assistance, MTSF = Medium-Term Strategic Framework, SEDP = Socioeconomic Development Plan, TA = technical assistance.

Notes:

1. The VIE country operational program (COP) paper for 1993–1996 (published in August 1993) outlined the IOS.
2. A revised COP was prepared in 1994. It reiterated the strategy to be followed along much the same lines as the program of the previous year, except that the fourth activity, which had been broadly stated as promotion of the social sectors, was more narrowly defined as "targeted support to address crosscutting concerns." Subregional cooperation in the context of the GMS was discussed.
3. No COP was prepared in 1995. In 1996, CAPs replaced COPs and were prepared annually. These provided a 3-year rolling plan overview of ADB's portfolio in Viet Nam.

Source: Asian Development Bank.

VIET NAM TRANSPORT PROJECTS FINANCING MIX

Loan Number	Project Loan	Approved Loan Amount					
		Lending Mix			Percentage		
		OCR	ADF	Total	OCR	ADF	Total
A. National Transport Projects							
1.	1272 Road Improvement	0	120	120	0	100	100
2.	1487 Second Road Improvement	0	120	120	0	100	100
3.	1653 Third Road Improvement	0	130	130	0	100	100
4.	1888 Provincial Roads Improvement Sector	0	70	70	0	100	100
5.	2195 Central Region Transport Networks Improvement Sector	0	95	95	0	100	100
6.	2374 Ho Chi Minh City–Long Thanh–Dau Giay Expressway TA Loan	0	10	10	0	100	100
7.	2451 Ho Chi Minh City–Long Thanh–Dau Giay Expressway Construction	410	0	410	100	0	100
8.	1354 Saigon Port	0	30	30	0	100	100
	Subtotal A	410	575	985	42	58	100
B. GMS Transport Projects							
1.	1660 GMS: Phnom Penh to Ho Chi Minh City Highway	0	100	100	0	100	100
2.	1728 GMS: East–West Corridor	0	25	25	0	100	100
3.	2222 GMS: Kunming–Hai Phong Transport Corridor–Noi Bai–Lao Cai Highway Technical Assistance	0	6	6	0	100	100
4.	2372 GMS: Southern Coastal Corridor	0	75	75	0	100	100
5.	2391 GMS: Kunming–Hai Phong Transport Corridor–Noi Bai–Lao Cai Highway	896	0	896	100	0	100
6.	2392 GMS: Kunming–Hai Phong Transport Corridor–Noi Bai–Lao Cai Highway	0	200	200	0	100	100
7.	2460 GMS: Ha Noi–Lang Son, GMS: Ha Long–Mong Xai, and Ben Luc–Long Thanh Expressway Technical Assistance	0	26	26	0	100	100
8.	2302 GMS: Kunming–Hai Phong Transport Corridor: Yen Vien– Lao Cai Railway Upgrading	0	60	60	0	100	100
	Subtotal B	896	492	1,388	65	35	100
	Total	1,306	1,067	2,373	55	45	100

ADF = Asian Development Fund, GMS = Greater Mekong Subregion, OCR = ordinary capital resources, TA = technical assistance.
Source: Asian Development Bank loan, TA, grant, and equity approvals database.

TECHNICAL ISSUES

1. In general, the project planning for all six of the roads subsector projects was satisfactory and well thought out. The only significant shortcoming was relatively poor traffic forecasting on the three National Highway 1 projects, with the major shortcoming being relatively inaccurate demand analyses to forecast future traffic volumes on project roads.

2. **Geometry and Typical Sections.** In general, the standard of the final geometry of all road improvements has been acceptable. Curvature and gradients on the three National Highway 1 projects and the two provincial road projects have essentially followed existing horizontal and vertical alignments. On the three National Highway projects, the design speed has typically controlled the geometry, which is the accepted design norm. On the other hand, restraints based on existing topography and width of existing rights-of-way were too often the controlling factors affecting the final geometry on the provincial road projects—particularly on those located in hilly and mountainous areas. This design practice on provincial roads has often resulted in dangerous driving conditions on certain road sections, with the primary deficiency being inadequate sight distances (both stopping and passing sight distances).

3. Typical sections¹ that have been used on Asian Development Bank (ADB) road projects have, in general, been appropriate. One exception has been cut slopes, which have often been too steep for existing geotechnical conditions, particularly on provincial road sections in hilly and mountainous areas. This has typically occurred when existing roads have been widened in mountainous (side-hill) areas—i.e., the roads were widened toward the cut slope side (instead of toward the embankment side). This required making already steep cut slopes even steeper near the bottom of the existing cut slope, invariably resulting in slope instability that in some cases caused newly formed cut slopes to fail, resulting in landslides that blocked side ditches or even entire sections of the road. The landslides are a perpetual maintenance problem. More care should have been taken during detailed design to determine slope stability based on actual geotechnical conditions. Road designs should have better incorporated slope stabilization techniques.²

4. **Bridge Structures.** On the three National Highway 1 projects, ADB loans only financed the repair and upgrading (or replacement) of short bridges—i.e., bridges less than 20 meters (m) in length. All bridges over 20 m were to be upgraded by the Japan Bank for International Cooperation (JBIC). Nevertheless, a technical deficiency in the coordinated approach between ADB and JBIC arose. As a result, not all long bridges have been upgraded to the standard 30-ton load capacity. The Independent Evaluation Mission was unable to determine the exact number of below-standard bridges remaining on the three National Highway 1 projects, or the actual degree to which they remain below standard. Reportedly, some remaining bridges are only designed to carry an 18-ton axle load. Additionally, the widths of several existing bridges remain narrow, which forces slow-moving traffic to merge onto the main traffic lanes, decreasing bridge traffic capacity and increasing the risk of accidents.

5. On the two provincial road projects, all bridges that required upgrading were financed under the loans; most provincial bridges were short, single-span reinforced concrete structures. On the provincial road component of Loan 1653 and Loan 1888, the design load standard that

¹ Typical sections in this context refer to widths of traffic lanes and shoulders (and of medians, where used); pavement cross slopes; and to embankment and cut side slopes.

² Gabions and mortared stone gravity retaining walls are typical low cost solutions that should have been more widely considered.

was applied was based on a 13-ton load capacity.³ Problems caused by overloaded trucks have arisen on both projects. Overloaded trucks increase bridge maintenance requirements and, in the long term, decrease the life of bridges.

6. **Materials.** There appeared to be a lack of consistent quality control measures for embankment, subbase and base course materials being used on provincial road sections under Loan 1888. Based on observations by the Independent Evaluation Mission on several road sections, there seemed to be only minimal quality control with regard to which materials are acceptable and which are not acceptable for use in embankment construction. On some provincial road projects, there also appeared to be little if any difference between materials used for subbase course and materials used for base course, even though the specifications differ significantly. On many provincial road construction sites (Loan 1888), materials that were to be used in the latter stages of project construction for base course were often stockpiled—for many months—in the center of the right-of-way while ongoing earthwork operations were being carried out along the grade and around the stockpiles. This practice can result in considerable contamination of base materials. On one provincial road construction section, the initial coarse aggregate layer for double bituminous surface treatment (DBST) was being spread manually by shovel by a laborer, rather than by mechanical means, as is customary. All of these observed practices appeared to be systematic and will ultimately result in structurally weak sections of pavement and reduced pavement life.⁴

7. **Pavement Design.** Present-day Vietnamese pavement design standards have been adapted over the years from other design practices. The Ministry of Transport design guidelines were originally based on Russian design practices. In recent years, these design practices have been adapted in an attempt to incorporate certain elements of the American Association of State Highway and Transportation Officials design methodology. The result is a fairly complex pavement design methodology that is uniquely Vietnamese.⁵ This design methodology is undoubtedly sound, and ably satisfies the needs of Viet Nam. But what too often has occurred on ADB provincial road sections is that the design has ended up being purely a "paper exercise"—i.e., the constructed section of pavement does not match the objectives and criteria of the initial pavement design carried out in the office. Usually this is due either to budget constraints or to poor quality control.

8. Many provinces lack aggregate crushing plants to produce crushed stone base; hence, it is often difficult to obtain good quality base course on provincial road construction projects. The Third Road Improvement Project was the last ADB project that used gravel surfacing on low-volume gravel roads. Gravel surfacing is no longer used on ADB road projects, no matter how low traffic volumes are. This change was primarily driven by the many inherent difficulties involved in maintaining gravel roads. The lowest standard of surfacing presently being used is DBST. Recurring discussions on identifying the most acceptable surface course for provincial

³ Provincial bridges improvements on Central Region Transport Networks Improvement Project were based on a 30 ton load capacity.

⁴ It is understood that quality control is a difficult challenge on provincial roads, because contractors are small and lack both equipment and experience. In recognition of quality control problems on Loan 1888, the PDOTs involved in Loan 2195 welcomed the chance to improve their quality control capabilities through this loan. The supervision consultant prepared a series of six forms for this purpose, and has administered training in each province involved in Loan 2195 in the use of the forms and the importance of quality control.

⁵ Vietnamese pavement design criteria vary in accordance with road function and traffic. Provincial roads are typically based on class V standards, and the recently introduced class VI. In recent years, the Ministry of Transport has had to increase the minimum allowable subgrade elastic modulus of resistance (i.e., subgrade strength) from 770, to 980, and finally to 1,170 newtons/square centimeter to be more in line with actual axle loads of traffic using the provincial road system.

roads have taken place with provincial departments of transport (PDOTs). PDOTs typically prefer to use asphalt concrete instead of DBST, although it is hard to justify using higher-cost asphalt concrete on low-capacity provincial roads.

9. **Drainage and Slope Stability.** It can be argued that cross drainage and side drainage should have equally high priority in designing low-volume mountainous roads, particularly in tropical areas. Yet conventional design procedures on Viet Nam provincial roads, particularly in mountainous terrain, typically pay too little attention to drainage and the construction management and sequencing of drainage items. The Independent Evaluation Mission repeatedly encountered instances where side and cross-drainage improvements were lacking, and where improper sequencing of construction of drainage features resulted in sections of saturated embankment.

10. **Traffic Management and Road Safety.** Traffic management and road safety remain critical design and operational issues.⁶ Among the major concerns are traffic law enforcement, a lack of pedestrian over-crossings, poor use of signage and traffic markings, and weak driver and pedestrian training and educational programs.

⁶ A discussion and audit of these traffic management and safety issues could easily be the subject of a stand-alone report or audit.

ECONOMIC INTERNAL RATE OF RETURN OF COMPLETED NATIONAL TRANSPORT PROJECTS IN VIET NAM FROM 1993 TO 2008

Loan No.	Project Title	EIRR at Appraisal (RRP) (%)	Reestimated EIRR		Reasons for the Deviation
			PCR (%)	PPAR/PPER (%)	
A. Roads					
1272	Road Improvement Project	32.3	25.8	No reestimation of EIRR	The difference in the appraisal and reestimated EIRRs were mainly due to the ff: (i) revised economic costs derived from actual costs; (ii) longer construction periods caused by delays in implementation; (iii) lower forecast for traffic from 1999 in the reevaluation than that estimated at appraisal; (iv) differences in maintenance costs and maintenance strategies assumed at appraisal and during reevaluation; (v) no generated traffic benefits being assumed; and (vi) different locations of the traffic count stations used for appraisal and the reevaluation.
1487	Second Road Improvement Project	30.0	34.7	No reestimation of EIRR	The reestimated EIRR was higher in view of the lower-than-expected capital expenditures, partially offset by lower-than-expected traffic, and higher-than-expected maintenance expenditures since the project scope was extended.
1653	Third Road Improvement Project (National Highway Component)	23.9	21.2	No reestimation of EIRR	The reestimated EIRR was slightly lower compared with the appraisal figure due to the difference in traffic growth rates and VOC savings estimates.
	Third Road Improvement Project (Provincial Roads Component)	-	20.3	No reestimation of EIRR	(Evaluation of costs and benefits at the time of appraisal encompassed the NHC only, hence no EIRR figure for the PRC at appraisal)
B. Ports					
1354	Saigon Port Project	18.1	33.3	12.6	The reestimated EIRR was below the appraisal and PCR estimates due mainly to an overestimation of incremental benefits as well as underestimation of operating costs in the previous calculations.

EIRR = economic internal rate of return, PCR = project completion report, PPAR = project performance audit report, PPER = project performance evaluation report, RRP = report and recommendation of the President.

Sources : ADB project completion reports and project performance evaluation reports/project performance audit reports.

MANAGEMENT RESPONSE TO THE SECTOR ASSISTANCE PROGRAM EVALUATION FOR THE TRANSPORT SECTOR IN VIET NAM

On 8 September 2009, the Director General, Independent Evaluation Department, received the following response from the Managing Director General on behalf of Management:

I. General Comments

1. We appreciate IED's comprehensive and balanced Sector Assistance Program Evaluation (SAPE) for the Transport Sector in Viet Nam. The SAPE provides valuable guidance for prioritizing, designing, and implementing ADB's future technical assistance (TA) and lending operations in the sector. We agree with the SAPE's overall assessment that ADB assistance to the transport sector has been "successful". We also agree with the overall top-down rating as "successful" and the overall bottom-up rating as "partly successful". The SAPE has identified a number of important lessons that need to be taken into account to ensure the future success and sustainability of ADB's operational programs in the sector.

II. Comments on Specific Recommendations and Follow-Up Action

2. **Recommendation 1. In light of expanding transport sector operations, develop a governance plan that will comprehensively address the institution building and organizational changes required to mitigate the risks of the current institutional arrangements.** We agree. Drawing upon the SAPE's findings and recommendations, a capacity development TA will be prepared to strengthen institutional arrangements, operation and maintenance planning, and governance in the transport sector. This TA will focus on the roles, functions, and responsibilities of the Ministry of Transport (MOT) and its line agencies in the sector.

3. **Recommendation 2. Consider providing "real-time" advisory support to the Government for new areas of interventions, such as private sector participation in investments.** We agree. Real-time advisory support is important. The SAPE recommends practical support for public-private partnerships (PPPs) as one of the priority areas of assistance in the transport sector. The World Bank conducted a PPP study to assist MOT in formulating a strategy for the development of PPPs in the road subsector. ADB will work with the Government to identify a highway project structured as a PPP by the end of 2010, and utilize the World Bank's PPP study to design the project and provide institutional capacity support to prepare and implement the project as a PPP.

4. **Recommendation 3. Through close cooperation with other development partners, improve the sustainability of projects by gaining Government commitment to maintenance funding.** We agree. In Viet Nam, the Government is very focused on the construction of the national expressway network, but places less emphasis on preparing plans to meet long-term operation and maintenance financing requirements. Since road assets are rapidly increasing, establishment of a dedicated fund for operation and maintenance is an urgent issue. Also, there is a lack of data on the maintenance of provincial

and rural roads. Collecting data on road conditions is the first step toward developing a national road and highway maintenance program. ADB will continue to coordinate with the Japan International Cooperation Agency and the World Bank to encourage the Government to strengthen institutional capacities and funding for road operation and maintenance.

5. Recommendation 4. Review bidding arrangements to ensure that underbidding does not adversely affect project performance and that transparency is maintained in contracts with equitized state-owned enterprise (SOE) sector. As of now, there does not appear to be a need to review bidding arrangements. After ADB restricted the eligibility of SOE contractors owned by MOT for procurement on ADB-financed projects, ADB has not seen evidence of underbidding. Rather, due to recent general escalations of prices, winning bids have been close to and sometimes exceeded the cost estimates. Therefore, we do not believe measures such as minimum bid price criteria to prevent underbidding are currently necessary. This said, we will continue to monitor the situation, and if necessary, carry out a review of bidding arrangements.

There are still many MOT-owned contractors in Viet Nam and the emergence of large private contractors has been constrained by a number of factors. For contracts tendered under international competitive bidding, most international contractors seek to subcontract with national contractors, some of which remain fully or partially owned by MOT. In the context of improving the procurement system as a whole, there is scope to develop regulations on subcontracting with SOE contractors to ensure transparency in the selection process and to avoid conflicts of interest between the employer (MOT and its line agencies) and the SOE contractors.

6. Recommendation 5. Reassess current staffing requirements at both ADB Headquarters and VRM to ensure that the expanding transport portfolio is appropriately resourced. We agree. ADB is taking steps to fill vacant positions for transport specialists at Headquarters and VRM. We also propose to strengthen project administration capacity at VRM by establishing a transport sector unit.

DEVELOPMENT EFFECTIVENESS COMMITTEE

Chair's Summary of the Committee Discussion on 16 September 2009

I. COUNTRY ASSISTANCE PROGRAM EVALUATION FOR VIET NAM

1. DEC recognized ADB's contribution to Viet Nam's success as outlined in the country assistance program evaluation (CAPE) by the Independent Evaluation Department (IED). However, DEC emphasized shortcomings in some areas of ADB's operation in Viet Nam during the period 1999-2008.

Availability of data

2. DEC noted the CAPE's difficulty in updating the values of some of the current CSP's results framework indicators since data were not available. Management representatives (headed by Country Director, Viet Nam Resident Mission) explained that, with the Government of Viet Nam (Government) gradually recognizing the usefulness of disclosure and having officially adopted results framework in the implementation of its 5-year Socio-Economic Development Plan, improvements are being made with assistance from development partners, including ADB, to improve data availability. This would ensure that future evaluation work will be supported with adequate data. One DEC member noted the importance of validating reported development results, and inquired as to whether the resident mission staff is well equipped to address the challenges of working in Viet Nam.

Technical assistance (TA)

3. DEC observed a lack of adequate strategy in ADB's TA operations, including lack of government ownership for TA administration. Management agreed with the CAPE's recommendation to delegate TA administration to executing agencies (EAs) as an appropriate direction to be achieved over medium-term. For the immediate future, Management cited the experience of a previous pilot activity where a similar delegation was unsuccessful and had led to implementation delays and governance concerns. DEC and Management agreed that delegation requires appropriate capacity building efforts. IED emphasized that strengthening country ownership is important for Viet Nam's development as a middle-income country.

Reforms of state-owned enterprises (SOEs)

4. DEC noted some weaknesses in ADB's programs for SOE reforms including lack of direct follow-up on ADB's work on the reforms, failure to achieve nontranche conditions relating to SOE equitization, and having some invalid assumptions in program design. Management stated that new initiatives will be undertaken to focus on improving the efficiency and corporate governance of SOEs. In reforming SOEs, transfer of ownership should be considered as means rather than an objective, and corporate and financial restructuring will also help transfer of ownership.

Disbursement

5. DEC noted project implementation delays due to slow disbursement procedures and inadequate capacity. DEC emphasized that although delays did not have cost overruns, there

were time overruns that affect the overall effectiveness of the projects. Management acknowledged such a shortcoming and noted how government's internal procedures slowed down the process. Management agreed that it is necessary to accelerate project implementation, and mentioned the ongoing efforts between the "6 Banks group" and the Government's Inter-Ministerial Taskforce on ODA Management. Although major efforts are being made, improvements may be seen only in the medium-term as necessary reforms also require a number of procedural changes in the Government system that will take time.

Anticorruption

6. DEC expressed concern over ADB's lack of engagement with other development partners in the anticorruption dialogue and meetings. DEC emphasized the need to combat corruption as part of the long-term strategic framework, and noted that ADB has made only a few interventions addressing corruption issues. One DEC member noted the lack of capacity in this subsector within ADB headquarters. Management explained that ADB has been very active in supporting the Government in anticorruption initiatives, but there can be some misgivings on the part of some development partners as ADB has not been attending some of the anticorruption-related meetings that tend to approach the issue from the human rights-related aspects. ADB's involvement in anticorruption matters includes capacity-building in anticorruption and incorporating anticorruption measures in project designs. ADB also has assisted the incorporation of "code of conduct" provisions in the enactment of the new Civil Service Law.

Quality of consultants

7. DEC noted the CAPE finding on the uneven quality of consultants. Management explained that the uneven quality of consultants had arisen due to changes in government expectations without consultation with ADB. The terms of reference of consultants cannot be revised immediately without formal agreement and it was indeed necessary to have closer communication and improved coordination between ADB and EAs.

Conclusions

8. DEC expressed satisfaction with the good performance of Viet Nam and with ADB's contribution to this successful performance.

9. DEC noted that there is scope for further improvement in reducing implementation delays by aligning ADB's system to the country system, ensuring sustainability of ADB-supported projects through better focus on establishing appropriate systems to ensure the availability of necessary financial resources for maintenance purposes, and more, but perhaps gradual, delegation of TA governance to the Government.

10. DEC emphasized the importance of ensuring that data required for monitoring the results framework are available for carrying out evaluation work. Results framework should not be presented without an explicit assurance that the data would be available by the time results are to be monitored.

11. DEC underscored the importance of capacity development for managing the transition of Viet Nam from a formerly-planned economy to, not only a market-based economy, but to a middle-income country status in the near future. DEC also underscored the importance of capacity development for dynamic SOE reforms.

12. DEC saw scope for improving the perception by bilateral agencies and other donors on the emphasis that ADB attaches to its anti-corruption mission.

II. SECTOR ASSISTANCE PROGRAM EVALUATIONS

13. DEC discussed IED's evaluation of ADB's assistance programs to the transport, and urban services and water supply and sanitation sectors in Viet Nam.

A. Transport Sector in Viet Nam

14. DEC expressed concern on inadequate post-completion data, as IED emphasized that weak post-completion data hampers monitoring of sustainability of ADB operations.

15. DEC also expressed concern on the absence of floor price in bidding documents which may result in underbidding and unfair competition for private sector, and indirect subsidy by the government for contracts with equitized SOEs. IED emphasized that ideally organizations participating in bidding should be genuinely private organizations, but the private sector is currently crowded out and has not developed as a result of the domination of equitized SOEs in large construction contracts.

16. Management noted that there has not been any underbidding in recent years. Efforts have been made to introduce more market-based principles in the bidding system of the country, not just limited to ADB-financed projects.

17. DEC emphasized the importance of commitment to project maintenance. One DEC member noted that close coordination with development partners improves project sustainability by gaining government commitment to maintenance funding. Another DEC member suggested utilizing staff resources of Private Sector Operations Department, as well as entering into public-private partnerships.

18. Management acknowledged the importance of maintenance for greater sustainability. However, the issue to be recognized is the establishment of appropriate systems, since key parts of the problem results from the ongoing process of decentralization of project responsibilities from the central to the local level, and the associated assignment of necessary budget. A DEC member mentioned how the Board Group visit in Viet Nam noted that earlier ADB-assisted infrastructure projects appeared to be appropriately maintained, and so the focus should be in establishing a new system for O&M budget allocation in the context of decentralization. Given this scenario, ADB has taken various initiatives to support this area through capacity building efforts.

B. Urban Services and Water Supply and Sanitation Sector in Viet Nam

19. DEC again expressed concern on the lack of baseline data to assess impact of water supply improvement on public health. Management committed to establishing a mechanism to address this shortcoming.

20. DEC noted the recurring issue of implementation delays, and referred to IED's recommendation to shorten the final design process. Management cited the need to address the complex and often lengthy process of approval of final designs in Viet Nam. The government is aware of this problem and there are ongoing dialogues between the government and various development partners to address the problem. IED remained firm that detailed planning at project preparatory assistance stage would address the problem and would not have any implication on the total cost of a project. Management noted the need to consider possible reforms in the context of the Government's internal approval processes, since the issue is not just a matter PPTA design but its alignment with the Government procedures

21. DEC supported IED's recommendation to integrate wastewater treatment in future project design to supplement substantial investments in water supply. Management noted that in Viet Nam, different agencies handle the wastewater treatment projects, and integration of the two sub-sectors has not been looked at.

Conclusions

22. DEC noted with satisfaction ADB's contribution to the two sectors on the dynamic economy of Viet Nam. However, DEC saw considerable scope for improvement in reducing long implementation periods, including delays in planned time span which resulted in dissonance between disbursed and approved amounts.

23. DEC noted the need to address the issue regarding possible underbidding in projects resulting in either a threat of contract renegotiation at a later date and/or implicit government subsidy when underbidding involved an SOE. Management intends to address the issue both through the reforms in the public procurement system in Viet Nam and through the interventions in the SOE reforms.

24. DEC emphasized the importance of focusing on sustainability of projects through proper maintenance, including adequate financing and capacity building for maintenance.

25. DEC urged Management to consider the inclusion of preliminary design during the first year at the PPTA stage itself. Without any additional cost implications, by reducing the implementation delays, it would result in considerable welfare gain for DMCs. Current system with PPTA covering pre-feasibility and loan financing of detailed design was noted, and efforts will be continued to synchronize better the relevant Government actions and the areas that can be supported by PPTA and loan financed consultants.

III. 2008 ANNUAL REPORT IN ACTING ON RECOMMENDATION

26. DEC appreciated the recently established management action record system (MARS) and the 2008 annual report. DEC recognized that MARS would help in real-time monitoring of recommendations and help in establishing ADB as a learning institution at the forefront of MDBs.

27. DEC hoped that IED recommendations, and Management's response to the recommendations, will improve over time for maximum benefit.

28. Management recognized MARS as a tool that would record agreements between IED and Management and track the performance of management action in response to IED recommendations. Spring-cleaning of stocks of past recommendations needed to be done. Management is also focusing on prioritizing IED recommendations.

29. DEC recommended minimizing IED recommendations to DMCs. One DEC member requested Management's long-term commitment to MARS, beyond the pilot stage. DEC expected that IED's validation of the effectiveness of MARS would be available after its first year of operation.

A handwritten signature in black ink, appearing to read "Ashok K. Lahiri". The signature is fluid and cursive, with the first name "Ashok" being more prominent and larger than the last name "Lahiri".

Ashok K. Lahiri
Chair, Development Effectiveness Committee